

**CITY OF TAFT, TEXAS
Annual Financial Report
For the fiscal year ended
September 30, 2016**

Raul Hernandez & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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CITY OF TAFT, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2016

PREPARED BY

**City of Taft
City Manager**

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FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

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INTRODUCTORY SECTION

City of Taft, Texas



September 11, 2017

The Honorable Mayor, City Council and City Manager
City of Taft
Taft, Texas

This report represents the Annual Financial Report for the City of Taft, Texas for the fiscal year ended September 30, 2016.

This report is published to provide the City Council, City Staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

To the best of our knowledge and belief, the enclosed data is accurate in all material respects, and is organized in a manner designed to fairly present the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The Staff is pleased to submit the Annual Financial Report for the City of Taft, Texas, for the fiscal year ended September 30, 2016.

THE REPORT

This report is presented in three sections: Introductory, Financial and Statistical. The Introductory Section includes this transmittal letter, a listing of the City Officials, and an organizational chart. The Financial Section includes a Management Discussion and Analysis (MD&A), basic financial statements and combining and individual fund statements and schedules, as well as the Independent auditors' report on the basic financial statements. This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City of Taft's MD&A can be found immediately following the report of the independent auditors. The Statistical Section includes financial and demographic information, usually presented on a multi-year basis that is relevant to a financial statement reader.

The City of Taft's financial statements have been audited by Raul Hernandez & Company, P.C.; a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Taft for the fiscal year ended September 30, 2016 are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for the fiscal year ended September 30, 2016 financial statements to be considered to be fairly presented in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board and other professional promulgations, as applicable.

CITY PROFILE

Location

The City of Taft is a city located in San Patricio County. Located in San Patricio County, Taft is 22 miles from Corpus Christi and about 88 miles south of San Antonio. The City encompasses approximately 4.0 square miles of land within the City's corporate boundary. Taft's population is estimated at about 3,048.

Taft was incorporated as a town in 1929. The City operates under a City Manager form of government.

Services Provided

Services provided by the City under the general governmental functions include public safety (police and fire), streets, sanitation, health and social services, culture recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities operations. A private firm provides solid waste collection and disposal services under a contract with the City. In addition, water and sewer services are provided under an Enterprise Fund concept, with user charges set by the City Council to ensure adequate coverage of operating expenses, payments on outstanding debt and reserves.

Blended Component Unit

The City of Taft, Texas had no blended component units.

Discretely Presented Component Unit

The City of Taft, Texas, Economic Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas, by providing financing of economic development objectives, recreational and infrastructure improvements. Revenues are provided primarily with funds derived from a one-half of one percent sales and use tax approved by the voters in the fiscal year 1999. The Corporation is reported as a discretely component unit. The Taft Economic Development Corporation was created to be a vehicle for economic stimulus for the Taft area. The City of Taft, Texas, Taft Quality Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas by providing financing for the promotion and development of new and expanded business enterprises. Revenues are provided primarily with funds derived from a one-fourth of one percent sales and use tax approved by the voters in the fiscal year 2015. In addition, the City has the Pride of Taft which is utilized for enhancing quality of life thru beautification of city wide cleanups activities. Complete financial statements of the Taft Economic Development Corporation may be obtained at the City's administrative office.

Taft Economic Development Corporation
City Hall, 501 Green Avenue, P.O. Box 416
Taft, Texas 78390

Taft Quality Improvement Corporation
City Hall, 501 Green Avenue, P.O. Box 416
Taft, Texas 78390

Pride of Taft
City Hall, 501 Green Avenue, P.O. Box 416
Taft, Texas 78390

Services provided by the City under the general governmental functions include public safety (police and fire).

Accounting System and Budgetary Control

The City's accounting records for governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable, expenditures being recorded when the services or goods are received, and the liabilities are incurred. Accounting records for the City's utilities and other proprietary activities are maintained on the accrual basis.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's current internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City requires that on or before the end of August, the City Manager submits to the City Council a proposed budget and budget message to the City Council for the fiscal year commencing the following October 1. The budget message is the responsibility of the City Manager. The City Council shall review the proposed budget and make any appropriate changes prior to adopting and publishing the final budget. The budget is legally enacted through passage of an ordinance on or before September 30th. The City Manager is authorized to transfer budgeted amount within departments; however, any revisions that alter the total expenditures of a fund must be approved by the City Council. The City Manager may be authorized, by ordinance and by adoption of the City Council, to expend limited amounts which are included within the budget. Expenditures over this amount require authorization by the City Council.

Budgetary control has been established at the individual fund level. Financial reports are produced showing budget and actual expenditures by line item for the current month and year-to-date and are distributed monthly to City department supervisors as well as to others upon request.

Individual line items are reviewed and analyzed for budgetary compliance. Personnel expenditures are monitored and controlled at a position level and capital expenditures are monitored and controlled item by item.

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

ECONOMIC OUTLOOK AND FINANCIAL CONDITION

Taft's Position in the Region

As the location of some of the last remaining undeveloped coastline adjacent to a deep water channel, the City is actively pursuing opportunities to promote this untapped resource through cooperative efforts with various government agencies and developers.

In addition, the City of Taft is located 12 miles to the northwest of City of Corpus Christi, Texas. As such, our economic development is largely related to providing a high quality of life for the families that reside here. Because of the quality of life the City continues to see a steady population growth. The current population from the 2010 census of 3,048 reflects a drop in population of 348 from the 2000 census of 3,396.

The City also benefits from a well-educated and affluent workforce. Taft's median household effective buying income of \$39,333 compares unfavorably to \$53,207 for Texas.

The following facts reflect Taft's economic condition and outlook:

- Building activity continues to be very strong.
- Total taxable value for all residential and commercial property in the City of Taft was 86.8 million for fiscal year 2015/2016 for a 5.3 million increase and a 6% increase.
- Sales tax collections have increased by more than 8% for the most recent year.

Future Economic Outlook

The City of Taft has taken several steps in recent years and continues to move forward on several projects to improve the quality of life by capitalizing on the natural beauty of the area and preserving public access to natural areas.

Cash Management

Idle cash is invested by City officials in certificate of deposits when the interest rates available provide local government investment opportunities while protecting principal and liquidity.

It is the City's Policy that all demand deposits and time deposits are secured by pledged collateral with a market value equal to no less than 100% of the deposits less an amount insured by the FDIC. Evidence of the pledged collateral is periodically obtained at a third party financial institution. Collateral is reviewed to assure the market value of the securities pledged equals or exceeds the related bank balances. All collateral is subject to inspection and audit by the City's independent auditors.

Pension Plan

The City of Taft provides pension benefits for all of its employees except for firefighters through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) from TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2015	Plan Year 2016
Employee Deposit Rate	7.00%	7.00%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as Age / Years of Service)	60/5,0/25	60/5,0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to Retirees)	30% of CPI Repeating	30% of CPI Repeating

Contributions: Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/ (asset) are as follows:

1. Annual Required Contribution (ARC)	120,783
2. Interest on Net Pension Obligation	-
3. Adjustment to the ARC	-
4. Annual Pension Cost (APC)	120,783
5. Contributions Made	120,783
6. Increase (Decrease) in net pension obligation	-
7. Net Pension Obligation/(Asset), beginning of year	-
8. Net Pension Obligation/(Asset), end of year	-

The City has an unfunded Actuarial Accrued Liability overall but did not have a current year variance. See notes to financial statements for additional information.

Health Insurance and Post Employment Health Care Benefits

In addition to providing pension benefit, the City provides certain health care benefits for retired employees for a maximum time period of 24 months as allowed for employees who have met the following requirements: Employees who have reached the age of 58, are eligible for the Texas Municipal Retirement System benefits, who have at least 20 years of credited service, 10 years of which must be continuous service with the City of Taft. Also, retirees will be eligible to continue major medical health and dental insurance for up to 24 months or until the age of 65 or until eligible for Medicare Insurance benefits.

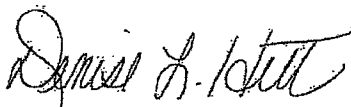
OTHER INFORMATION

Acknowledgments

Appreciation is expressed to each and every City employee who, throughout the past year, has faithfully and diligently served the City and its community. They are to be thanked.

The members of the City Council, and Citizens, are to be thanked for their active participation and support in the operations of the City. I would also like to thank the employees of the City of Taft, Texas, for their assistance in compiling the necessary financial data regarding this report.

Respectfully submitted,


Interim City Manager

CITY OF TAFT

List of Principal Officials

ELECTED OFFICIALS

Pedro Lopez	Mayor
Leonard Vasquez	Mayor Pro-Tem
Lolo Hernandez	City Council
Donnie S. Riojas	City Council
Rolando Rodriguez	City Council

APPOINTED OFFICIALS

Denise L. Hitt	Interim City Manager
Mary Alice Sandoval	Finance/HR Director
Klaus W. Mansion	Chief of Police
Dan Gibson	Fire Chief
Fred Farias	Supervisor of Public Works
Jennifer Pineda	City Secretary Municipal Court Clerk
Tazh Fonville	Building Inspector
Carmel Herrera	Municipal Court Judge
Denton Navarro Rocha Bernal Hyde & Zech	City Attorney's

City of Taft, Texas

FINANCIAL SECTION

City of Taft, Texas

RAUL HERNANDEZ & COMPANY, P.C.
Certified Public Accountants
5402 Holly Rd, Suite 102
Corpus Christi, Texas 78411
Office (361) 980-0428 Fax (361) 980-1002

Independent Auditors' Report

To the City Council
City of Taft, Texas
P.O. Box 416
Taft, Texas 78390

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Taft, Texas ("the City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Taft's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Taft's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Taft's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Taft, Texas as of September 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund and debt service fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the Taft's proportionate share of the net pension liability and schedule of Taft pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Taft, Texas's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements.

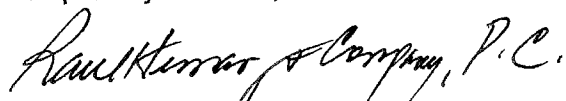
The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2017 on our consideration of City of Taft, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Taft, Texas's internal control over financial reporting and compliance.

Respectfully submitted,



Raul Hernandez & Company, P.C.

Corpus Christi, TX
September 11, 2017

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

This discussion and analysis of the City of Taft's financial performance is intended to provide an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2016. The reader is encouraged to consider the information presented here in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- As of September 30, 2016, the City of Taft's General Fund reported an ending deficit fund balance of (\$212,036) in the governmental fund types. (Exhibit C-3)
- As of September 30, 2016, the City of Taft's Utility Fund reported ending total net position of \$458,297, an increase of \$228,525 with \$256,140 from operations, and a prior period adjustment of (\$27,615) or 99%. (Exhibit D-2)
- The net position of the City of Taft exceeded its liabilities at the close of the fiscal year ending September 30, 2016 by \$5,516,171. A decrease of the net assets was a result of the recognition of the net pension liability of \$637,895 for fiscal year 2016. Of \$5,516,171 total net position, (\$519,628) or .09% represents the unrestricted net position. (Exhibit A-1, B-1)
- The City of Taft's total net position increased by \$40,894 for the year ended September 30, 2016; the major reason for the increase in net position is attributed to an increase in capital assets and an decrease in debt liabilities for the governmental and utility funds. (Exhibit B-1)
- As of September 30, 2016, the City of Taft's governmental funds reported combined ending fund balance of \$365,690. Prior period adjustments of (\$1,889) were made to decrease fund balances to actual. (Exhibit C-1, C-3)
- The City's total debt decreased by \$315,889 during the year from \$6,223,037 to \$5,907,148.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the City of Taft's basic financial statements. The City of Taft's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Taft's finances, in a manner similar to a private-sector business.

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

The Statement of Net Assets presents information on all of the City of Taft's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Taft is improving or deteriorating. This statement combines and consolidates governmental funds' current financial resources (short-term spend-able resources) with capital assets and long-term obligations. Other non-financial factors should be taken into consideration, such as changes in the City's property tax base and the condition on the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial condition of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxed and earned but not used vacation leave). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- Governmental Activities- Most of the City's basic services are reported here, including the police, fire, library, building and inspections, sanitation, code enforcement, parks and recreation and general administration. Property taxes, sales taxes and franchise fee finance most of these activities.
- Business type Activities- the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system are reported here.
- Discretely Presented Component Unit – The Taft Economic Development Corporation and the Pride of Texas were created to assist in economic development and chamber enhancements.
- Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds- not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City has established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds- governmental and propriety- utilize different accounting guidelines.

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

- **Governmental Funds-** the majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provided a detailed short term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

By comparing information presented for governmental activities in the government-wide statements, readers may better understand the long term effect of the government's near term operating decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statement.

The City of Taft maintains nine individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Capital Projects Fund and Debt Service Fund, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated non major fund presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

- **Proprietary Funds-** the City charges customers for the services it provides. These services are generally reported in the proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. Because these services benefit both governmental as well as business type functions, their cost has been included in both the governmental and business type activities in the government-wide financial statements.

Notes to the Financial Statements

These notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016**

Other Information

In addition to basic financial statement and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to the employees and budgetary comparative information for the general fund.

The City as a Whole- Government-wide Financial Analysis

The City's combined net assets were \$5.97 million as of September 30, 2016. Analyzing the net assets and net expenses of governmental type activities were \$5.51 million and business-type activities, separately the business type activities net assets are \$.45 million. The analysis focuses on the net assets (Table 1) and changes in general revenues (Table 2) and significant expenses of the City's governmental and business type-activities.

By far the largest portion of the City's net assets reflects its investment in capital assets (e.g. land, buildings, plant assets, machinery, equipment, and furniture); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table I
CITY OF TAFT, TEXAS
CHANGES IN NET POSITION**

	Governmental Activities		Business-Type Activities	
	2016	2015	2016	2015
Current and Other Assets	1,031,585	1,171,047	728,624	854,415
Capital Assets	5,395,581	5,577,631	6,189,545	5,963,800
Total Assets:	6,427,166	6,748,679	6,918,169	6,818,214
Deferred Outflows of Resources	188,972	92,239	77,186	19,915
Current and Other Liabilities	422,879	519,931	722,227	723,211
Long-Term Liabilities	674,146	580,704	5,813,629	5,877,271
Total Liabilities	1,097,026	1,100,635	6,535,856	6,600,481
Deferred Inflows of Resources	2,941	36,481	1,202	7,876
Net Assets:				
Invested in Capital Assets				
net of Related Debt	5,328,814	5,395,860	312,912	137,357
Restricted	706,985	782,590	-	-
Unrestricted	(519,628)	(474,647)	145,385	92,414
Total Net Assets	5,516,171	5,703,803	458,297	229,771

Table II
CITY OF TAFT, TEXAS
CHANGES IN NET POSITION

	Governmental Activities		Business Type Activities	
	2016	2015	2016	2015
Revenues:				
Property Taxes	\$ 1,234,991	\$ 1,295,165	\$ -	\$ -
Sales Tax	203,361	200,976	-	-
Franchise Taxes	104,137	109,682	-	-
Other Taxes	-	-	-	-
License and Permits	58,308	33,692		
Intergovernmental	63,470	93,796	-	-
Charges for Services	25,694	97,832	2,281,349	2,173,189
Fines and Forfeitures	104,785	125,856	-	-
Investment Earnings/Other	321	371	7	143
Other Revenue	533,225	290,812	-	-
Total Revenues	2,328,292	2,248,182	2,281,356	2,173,332
Expenses:				
General Government	1,269,733	1,318,616	-	-
Public Safety	1,298,353	1,130,088	-	-
Public Works	300,037	273,608	-	-
Parks, Recreation and Culture	162,660	160,342	-	-
Water	-	-	647,012	540,277
Wastewater	-	-	165,357	160,269
Sanitation	-	-	448,410	425,127
Economic Development and Assistance	-	-	-	-
Bond Payments, Principal, and Interest	38,822	34,408	-	-
Depreciation	-	-	208,921	204,442
Total Expenses	3,069,605	2,917,062	1,469,699	1,330,116
Increase (Decrease) in Net Assets before transfers and special items	(741,313)	(668,880)	811,657	843,216
Transfers	555,518	661,375	(555,518)	(661,375)
Non-operating Revenues/(Expenses)	-	-	-	-
Net Increase (Decrease)	(185,795)	(7,505)	256,141	181,842
Prior Period Adjustment	(1,838)	(555,316)	(27,615)	(249,070)
Net Position at Beginning	5,703,803	6,266,623	229,771	296,999
Net Position at Ending	\$ 5,516,171	\$ 5,703,803	\$ 458,297	\$ 229,771

Government Fund Activities

The City's general fund revenues increased when compared to the prior year by 6 percent or \$80,323. The assessed value of the property in the City was \$86.8 million, an increase compared to the prior year of 81.5 million. In addition to ad valorem property taxes, the City collects sales taxes, franchise taxes, beverage taxes and other taxes in lieu of ad valorem taxes.

Table III
General Fund Revenues
At September 30

	2016	2015	Increase (Decrease)
Taxes	917,651	856,151	61,500
Licenses and Permits	58,308	33,692	24,616
Intergovernmental	8,155	3,925	4,230
Charges for Services	17,963	18,648	(685)
Fines and Penalties	35,162	53,852	(18,690)
Other	201,783	192,430	9,353
Total General Revenues	<u>1,239,022</u>	<u>1,158,699</u>	<u>80,323</u>

The most significant governmental expense for the City was in the general administration. The general administration incurred expenditures of \$1,059,802. General Administration accounted for \$614,268 in operating expenditures and the Finance expenditures was \$175,916.

Enterprise Fund Activities

Revenues of the City's Utility Funds were \$2.2 million for the fiscal year ending September 30, 2016. Operating expenses were \$1.46 million for the year, resulting in net revenues of \$811,658 before transfers out is taken into account. The most significant expense of the Utility Fund was \$407,966 for water purchased.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2016, the City of Taft had nearly \$29 million invested in a broad range of capital assets, including police and fire equipment building, land, park facilities, roads, bridges, vehicles, and water and sewer lines. (Exhibit A-1, B-1)

Table IV
Capital Assets before Depreciation
At September 30

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 10,524	\$ 10,524	\$ -	\$ -	\$ 10,524	\$ 10,524
Buildings	2,702,766	2,658,616	32,668	32,668	2,735,434	2,691,284
Improvements	3,130,596	3,130,596	-	-	3,130,596	3,130,596
Equipment	1,626,152	1,608,397	407,482	399,016	2,033,634	2,007,413
Vehicles	652,348	652,348	-	-	652,348	652,348
Infrastructure	10,179,393	10,000,000	-	-	10,179,393	10,000,000
Construction in Progress	4,000	-	-	32,000	4,000	32,000
Water System	-	-	2,083,110	1,624,910	2,083,110	1,624,910
Sewer System	-	-	8,248,521	8,248,521	8,248,521	8,248,521
Total Capital Assets	<u>\$ 18,305,779</u>	<u>\$ 18,060,481</u>	<u>\$ 10,771,781</u>	<u>\$ 10,337,115</u>	<u>\$ 29,077,560</u>	<u>\$ 28,397,596</u>

Debt

At year-end, the City of Taft had \$5,907,148 in General Certifications of Obligation and Revenue Bonds, notes and capital leases as compared to \$6,223,037 at the end of the prior fiscal year. Table 5 below reflects outstanding long-term debt overall decrease of 5 percent.

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
TWDB Certificate of Obligations - 2010	\$ -	\$ -	\$ 5,008,000	\$ 5,201,000	\$ 5,008,000	\$ 5,201,000
General Certificates of Obligations - 2010	-	-	687,422	745,603	687,422	745,603
Note Payable	-	61,776	-	-	-	61,776
Loan Payable	-	-	174,738	141,805	174,738	141,805
Capital Leases	30,515	60,104	6,473	12,749	36,988	72,853
Total Outstanding Debt	<u>\$ 30,515</u>	<u>\$ 121,880</u>	<u>\$ 5,876,633</u>	<u>\$ 6,101,157</u>	<u>\$ 5,907,148</u>	<u>\$ 6,223,037</u>

During the current fiscal year, the City of Taft paid principal of \$432,888 on the outstanding debt. The City Charter authorizes the City of Taft to issue bonds, when authorized by the voters or the City Council, for any purpose for which a city may issue bonds under the Constitution and laws of the State of Texas. The Charter precludes the use of bond proceeds for any other purpose other than that for which the bonds were sold.

THE CITY'S FUNDS

At the close of the City's fiscal year on September 30, 2016, the governmental funds of the City reported a combined fund balance of \$365,690. This ending total fund balance(s) include a decrease in the fund balance of (\$17,379) including results of overall operational loss of (\$15,490) and a prior period adjustment of (\$1,889) in the City's Governmental funds. The ending General Fund balance resulted in a deficit of (\$212,036) with operations resulting in a gain of \$41,138 and a prior period adjustment of \$24,678.

Other fund balance charges are:

- The Series 2004 Debt Service fund balance increased from \$3,154 to \$3,156 while the Series 2000 Debt Service fund balance increased from \$243,246 to \$299,370, the Series 2010 resulted in a fund balance of \$156.

General Fund Budgetary Highlights

During the fiscal year, the City is continuing to enhance its purchase order system to establish stronger controls on its budget process.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Positive! That is the economic outlook for the City of Taft. The Staff has been frugal when preparing our budget so it is very lean and will continue that way for at least another budget year. We have taken a very guarded approach when preparing the budget. The Economic Development Corporation has been actively pursuing avenues for growth which will assist the city in producing sales tax and ad valorem tax revenue and possible new businesses in the very near future. With the increase in industrial growth in San Patricio County, Taft is a prime location to benefit from these expansions. Growth means service and infrastructure needs which will be a challenge on our very lean budget but we are optimistic that we are on the precipice of financial stabilization and increased revenue sources. Capital outlay is a major challenge but we are confident that the city will meet the financial demands and continue to move forward with limited debt as we pay down our long term commitments.

San Patricio County growth is continuing at a rapid pace with all of the communities receiving benefit from this growth. OxyChem, Cheniere Energy, Chemours, Voestalpine, Tianjin Pipe Company, to name a few, are steadily moving towards completion. These projects will add approximately 7000 construction jobs and 1000+ permanent jobs in San Patricio County.

Taft has added a 105 acre tract into the city limits with proposed mixed usage opportunities for the city.

Taft's ad valorem taxable value has continued to increase as the tax rate decreases. Revenues from sales tax will steadily increase due to the transient nature of workers using local businesses for food, gas, groceries, and more workers are purchasing and renting homes at a faster pace in the city.

Overall, the City looks forward to groundbreaking on the Transportation Alternative Paths that will be paid for through TXDOT grant funding. This project will start on Green Avenue and eventually extend all the way to the waterpark off of Retama. The Coastal Bend is in a unique position for years of growth and Taft hopes to capitalize on this growth.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives from all sources. If you have questions about this report or need additional financial information, contact the City Manager at the City of Taft, 501 Green Avenue, Taft, Texas 78390.

BASIC FINANCIAL STATEMENTS

City of Taft, Texas

CITY OF TAFT, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

EXHIBIT A-1

	Primary Government			Component Unit Non-Major Component Unit
	Governmental Activities	Business Type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	\$ 671,281	313,934	985,215	96,422
Investments - Current	-	-	-	79,797
Receivables (net of allowance)	400,400	389,620	790,020	13,478
Due From Other Funds	(40,096)	(1,405)	(41,501)	41,501
Due From Others	-	-	-	-
Inventory	-	26,475	26,475	-
Capital Assets:				
Land	10,524	-	10,524	415,920
Infrastructure and Buildings, net	5,294,270	5,782,063	11,076,333	-
Machinery and Equipment, net	86,787	407,482	494,269	95,090
Construction in Progress	4,000	-	4,000	-
TOTAL ASSETS:	\$ 6,427,166	\$ 6,918,169	\$ 13,345,335	742,208
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow Related to Pension Plan	188,972	77,186	266,158	-
Total Deferred Outflows of Resources	188,972	77,186	266,158	-
LIABILITIES:				
Accounts Payable & Other Current Liab.	\$ 392,364	106,012	498,376	-
Accrued Liabilities	-	157,501	157,501	2,007
Customer Deposits	-	135,160	135,160	-
Noncurrent Liabilities:				
Due within one year	30,515	323,554	354,070	34,370
Due in more than one year	36,251	5,553,079	5,589,330	407,429
Net Pension Liability	637,895	260,550	898,445	-
TOTAL LIABILITIES	\$ 1,097,026	6,535,856	7,632,882	443,806
DEFERRED INFLOWS OF RESOURCES				
Deferred Amounts Related to Pensions	2,941	1,202	4,143	-
Total Deferred Inflows of Resources	2,941	1,202	4,143	-
NET POSITION:				
Invested in Capital Assets	\$ 5,328,814	312,912	5,641,727	69,211
Restricted for Special Revenue Funds	407,459	-	407,459	-
Restricted for Debt Service Funds	299,526	-	299,526	-
Unrestricted Net Position	(519,628)	145,385	(374,243)	229,192
TOTAL NET POSITION	\$ 5,516,171	458,297	5,974,468	298,403

The notes to the Financial Statements are an integral part of this statement.

CITY OF TAFT, TEXAS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

		<u>Program Revenues</u>	
			<u>Operating</u>
<u>Primary Government:</u>	<u>Expenses</u>	<u>Charges For</u>	<u>Grants and</u>
		<u>Services</u>	<u>Contributions</u>
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 1,269,733	25,694	-
Public Safety	1,298,353	35,162	-
Public Works	300,037	69,623	-
Culture and Recreation	162,660	-	-
Economic Development and Assistance	-	-	-
Bond Interest	38,822	-	-
TOTAL PRIMARY GOVERNMENT	\$ 3,069,605	130,479	-
 BUSINESS-TYPE ACTIVITIES:			
Utility Fund	\$ 1,469,699	2,281,349	-
Total Business Type Activities:	\$ 1,469,699	2,281,349	-

General Revenues:

Taxes:

Prop. Taxes, Levied for M&O, Debt Serv., Pen., Int.

Sales Taxes

Franchise Taxes

Other Taxes

Licenses and Permits

Grants and Contributions not Restricted

Other Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

Net Position - Ending

The notes to the Financial Statements are an integral part of this statement.

EXHIBIT B-1

Net (Expense) Revenues and Changes in Net Position			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	Non-major Component Unit
\$ (1,244,039)	-	(1,244,039)	-
(1,263,190)	-	(1,263,190)	-
(230,414)	-	(230,414)	-
(162,660)	-	(162,660)	-
-	-	-	150,547
(38,822)	-	(38,822)	-
<u>\$ (2,939,126)</u>	<u>-</u>	<u>(2,939,126)</u>	<u>150,547</u>
-	811,650	811,650	-
-	811,650	811,650	-
\$ 1,234,991	-	1,234,991	-
203,361	-	203,361	152,521
104,137	-	104,137	-
-	-	-	-
58,308	-	58,308	-
63,470	-	63,470	-
533,225	-	533,225	-
321	7	329	369
555,518	(555,518)	-	-
<u>\$ 2,753,331</u>	<u>(555,510)</u>	<u>2,197,821</u>	<u>152,890</u>
(185,794)	256,140	70,346	2,343
<u>5,703,803</u>	<u>229,772</u>	<u>5,933,575</u>	<u>292,184</u>
(1,838)	(27,615)	(29,453)	3,876
<u>\$ 5,516,171</u>	<u>458,297</u>	<u>5,974,468</u>	<u>298,403</u>

**CITY OF TAFT, TEXAS
BALANCE SHEET
GOVERNMENT FUNDS
SEPTEMBER 30, 2016**

	<u>General</u>	<u>Interest & Sinking Fund</u>
ASSETS		
Cash and Texpool Accounts	\$ -	295,288
Receivables and Allowances:		
Accounts Receivable	111,353	-
Due From Other Governmental Agencies	-	-
Other	-	-
Ad Valorem Taxes	158,526	134,354
Allowance for Uncollectible Taxes	(7,926)	(6,718)
Due From Other Funds	<u>78,601</u>	<u>4,082</u>
TOTAL ASSETS	<u><u>\$ 340,554</u></u>	<u><u>427,006</u></u>
LIABILITIES AND FUND BALANCE		
Accounts Payable	\$ 215,962	-
Deferred Revenue	18,216	-
Other Payables	21,270	-
Due to Other Funds	146,542	-
TOTAL LIABILITIES	<u><u>\$ 401,990</u></u>	<u><u>-</u></u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue -Property Taxes	\$ 150,600	127,636
TOTAL DEFERRED INFLOWS OF RESOURCES	<u><u>\$ 150,600</u></u>	<u><u>127,636</u></u>
FUND BALANCE		
Restricted for Special Revenue	\$ -	-
Restricted for Debt Service	-	299,370
Restricted for Capital Projects	-	-
Unassigned	(212,036)	-
TOTAL FUND BALANCE	<u><u>\$ (212,036)</u></u>	<u><u>299,370</u></u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u><u>\$ 340,554</u></u>	<u><u>427,006</u></u>

The notes to the Financial Statements are an integral part of this statement.

EXHIBIT C-1

Other Governmental Funds	Total Governmental Funds
375,993	671,281
-	111,353
-	-
10,812	10,812
-	292,880
-	(14,644)
<u>105,041</u>	<u>187,724</u>
 <u><u>491,846</u></u>	 <u><u>1,259,406</u></u>
 132,161	 348,123
-	18,216
-	21,270
81,278	227,820
<u>213,439</u>	<u>615,429</u>
 -	 278,236
<u>-</u>	<u>278,236</u>
 407,459	 407,459
156	299,526
-	-
(129,208)	(341,244)
<u>278,407</u>	<u>365,741</u>
 <u><u>491,846</u></u>	 <u><u>1,259,406</u></u>

CITY OF TAFT, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2016

Total Fund Balances - Governmental Funds \$ 365,741

The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase (decrease) net position.

Capital assets are used in governmental activities are not financial resources and therefore are not reported in governmental funds. The net effect of including these balances for capital assets (net of depreciation) in the governmental activities is to increase net assets. At the beginning of the year, the costs of these assets were: \$ 18,060,481 and the accumulated depreciation was: \$ (12,482,848) 5,395,861
 In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position -- (121,668).

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the governmental-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to increase (decrease) net position. (91,842)

The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. (427,350)

Included in the noncurrent assets/(liabilities) is the recognition of the City's net pension asset/(liability) required by GASB 68 in the amount of \$(637,896), a deferred resource inflow of \$(2,941), and a deferred resource inflow in the amount of \$188,972. This resulted in an increase/decrease in net position by \$ (451,865). (451,865)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and the recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position. 725,626

Net position of Governmental Activities \$ 5,516,171

The notes to the Financial Statements are an integral part of this statement.

City of Taft, Texas

CITY OF TAFT, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

	General	Interest & Sinking Fund
REVENUES		
Taxes	\$ 917,651	346,602
Licenses and Permits	58,308	-
Intergovernmental	8,155	-
Charges for Services	17,963	-
Fines and Penalties	35,162	-
Interest	-	194
Other	201,783	-
TOTAL REVENUES	\$ 1,239,022	346,797
EXPENDITURES		
Current		
General Administration	\$ 1,059,802	-
Cultural and Recreational, Tourism	106,297	-
Public Safety	936,490	-
Public Works	171,069	-
Debt Service		
Principal Retirement	-	-
Interest and Fiscal Charges	-	39,492
TOTAL EXPENDITURES	\$ 2,273,657	39,492
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (1,034,635)	307,305
OTHER FINANCING SOURCES (USES)		
Transfers from Other Funds	1,075,773	-
Transfer to Other Funds	-	(251,181)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 1,075,773	(251,181)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 41,138	56,124
FUND BALANCE, October 1 (Beginning)	\$ (277,852)	243,246
Prior Period Adjustment	24,678	-
FUND BALANCE, September 30 (Ending)	\$ (212,036)	299,370

The notes to the Financial Statements are an integral part of this statement.

EXHIBIT C-3

Other Governmental Funds	Total Governmental Funds
51,660	1,315,914
-	58,308
55,315	63,470
-	17,963
-	35,162
127	321
<u>338,920</u>	<u>540,703</u>
<u>446,022</u>	<u>2,031,841</u>
3,556	1,063,358
-	106,297
286,144	1,222,634
-	171,069
-	-
-	<u>39,492</u>
<u>289,700</u>	<u>2,602,849</u>
<u>156,322</u>	<u>(571,008)</u>
45,000	1,120,773
<u>(314,074)</u>	<u>(565,255)</u>
(269,074)	555,518
(112,752)	(15,490)
417,675	383,069
<u>(26,567)</u>	<u>(1,889)</u>
<u>278,356</u>	<u>365,690</u>

CITY OF TAFT, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

Total Net Change in Fund Balances - Governmental Funds \$ (15,490)

The City uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position. -

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase (decrease) net position. (16,715)

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. (427,350)

The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/15 caused the change in the ending net position to increase in the amount of \$62,728. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling \$(65,155). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased/(decreased) the change in net position by \$(74,317). The result of these changes is to increase/(decrease) the change in net position by \$(76,744). (76,744)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds from bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions as to increase (decrease) net position. 350,505

Change in Net Position of Governmental Activities \$ (185,794)

The notes to the Financial Statements are an integral part of this statement.

CITY OF TAFT, TEXAS

EXHIBIT C-5

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

(WITH MEMO TOTALS FOR SEPTEMBER 30, 2015)

(MEMO)
(TOTALS)
(2015)

	2016				(2015)
	BUDGETED AMOUNTS			Variance with Final Budget Variance	
	Original	Final	Actual		Actual
REVENUES					
Taxes					
Property Taxes	\$ 559,293	\$ 609,994	\$ 609,993	\$ (1)	\$ 545,286
General Sales and Use Taxes	225,150	297,675	203,521	(94,154)	201,183
Franchise Tax	102,000	66,599	104,137	37,538	109,682
Other Taxes	135,000	139,513	(0)	(139,513)	-
License and Permits	29,600	58,308	58,308	(0)	33,692
Intergovernmental Revenues	1,000	8,155	8,155	(0)	3,925
Charges for Services	17,600	17,970	17,963	(7)	18,648
Investment Earnings	200	33	227	194	280
Fines and Forfeitures	65,000	36,093	35,162	(931)	53,852
Other Revenues	308,350	207,978	201,556	(6,422)	192,150
Total Revenues	1,443,193	1,442,318	1,239,022	(203,296)	1,158,699
EXPENDITURES					
General Administration	852,923	700,092	614,268	85,824	544,831
Finance	164,861	174,065	175,916	(1,851)	183,047
Municipal Court	40,949	42,058	42,355	(297)	46,401
Administration	72,000	137,962	174,537	(36,575)	98,226
Legislative	36,468	33,594	34,135	(541)	2,594
Tax Collection	15,500	14,765	18,590	(3,825)	22,294
Public Safety					
Police	574,733	575,249	580,837	(5,588)	561,094
Fire	9,900	342	569	(227)	1,420
Emerg. Med. Service	248,397	250,007	284,521	(34,514)	331,431
Animal Control	1,910	1,318	1,318	0	885
Code Enforcement	68,586	68,557	69,245	(688)	62,253
Public Works					
Streets/Maintenance Department	253,166	152,478	171,069	(18,591)	150,819
Culture and Recreation					
Library	62,582	59,690	60,584	(894)	59,409
Parks/Community Center	38,515	38,298	38,689	(391)	39,266
Museum	-	-	-	-	-
Community Centers	8,940	6,785	7,024	(239)	8,051
Total Expenditures	2,449,430	2,255,260	2,273,657	(18,397)	2,112,021
Excess (Deficiency) of Revenues Over (Under)					
Expenditures	(1,006,237)	(812,942)	(1,034,635)	(221,693)	(953,322)
OTHER FINANCING SOURCES (USES):					
Transfers In	1,070,899	981,657	1,075,773	94,116	962,898
Transfers (Out)	-	-	-	-	-
Total Other Financing Sources (Uses)	1,070,899	981,657	1,075,773	94,116	962,898
Net Change in Fund Balance	64,662	168,715	41,138	(127,577)	9,576
Fund Balance - October 1 (Beginning)	(277,852)	(277,852)	(277,852)	-	(164,769)
Prior period adjustment	-	-	24,678	24,678	(122,659)
Fund Balance - September 30 (Ending)	\$ (213,190)	\$ (109,137)	\$ (212,036)	\$ (102,899)	\$ (277,852)

The notes to the Financial Statements are an integral part of this statement.

CITY OF TAFT, TEXAS

EXHIBIT C-6

DEBT SERVICE FUND - INTEREST AND SINKING FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET (GAAP BASIS) AND ACTUAL

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

(WITH MEMO TOTALS FOR SEPTEMBER 30, 2015)

	2016			(MEMO) (TOTALS) (2015)	
	<u>BUDGETED AMOUNTS</u>			<u>Final</u>	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
				<u>Variance</u>	
REVENUES					
Ad valorem Taxes	\$ 291,006	\$ 319,247	\$ 320,854	\$ 1,607	\$ 461,548
Ad valorem- Penalty & Interest	-	6,500	25,749	19,249	-
Total Ad valorem Taxes	291,006	325,747	346,602	20,855	461,548
Other Revenue	-	-	-	-	-
Interest	265	-	194	194	224
Total Revenues	291,271	325,747	346,797	21,050	461,772
EXPENDITURES					
Debt Service					
Principal Retirement	248,201	248,201	-	248,201	65,000
Interest and Fiscal Charges	42,805	42,805	39,492	3,313	44,097
Total Expenditures	291,005	291,005	39,492	251,513	109,097
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	266,000	34,742	307,305	272,563	352,675
OTHER FINANCING SOURCES (USES)					
Other Sources- Transfers (Out)	-	-	(251,181)	(251,181)	(249,200)
Other Sources- Transfers In	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	(251,181)	(251,181)	(249,200)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	266	34,742	56,124	21,382	103,475
FUND BALANCE, October 1 (Beginning)	243,246	243,246	243,246	-	137,596
Prior Period Adjustment	-	-	-	-	2,175
FUND BALANCE, September 30 (Ending)	\$ 243,512	\$ 277,988	\$ 299,370	\$ 21,382	\$ 243,246

The notes to the Financial Statements are an integral part of this statement.

City of Taft, Texas

**CITY OF TAFT, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2016**

EXHIBIT D-1

	Business-Type Activities Enterprise Fund
	Utility Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 313,934
Receivables and Allowances	
Accounts	
Water and Wastewater Billings	423,448
Allowance for Uncollectible Accounts	(33,828)
Inventory	26,475
Total Current Assets	<u>730,029</u>
 Capital Assets	
Buildings	32,668
Water System	2,083,110
Sewer System	8,248,521
Furniture and Equipment	<u>407,482</u>
 Total Capital Assets	10,771,781
 Less Accumulated Depreciation	<u>(4,582,235)</u>
Net Capital Assets	<u>6,189,545</u>
 TOTAL ASSETS	 \$ <u>6,919,574</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension Plan	<u>77,186</u>
Total Deferred Outflows of Resources	<u>77,186</u>

The notes to the Financial Statements are an integral part of this statement.

	Business-Type Activities Enterprise Fund
	Utility Fund
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 106,012
Accrued Liabilities	132,526
Compensated Absences	24,975
Due to Other Funds	1,405
Capital Leases Payable	6,473
Loan Payable	62,759
Current Portion of Revenue Bonds Payable	254,323
Customer Meter Deposits	<u>135,160</u>
Total Current Liabilities	<u>723,632</u>
Long-Term Liabilities	
Capital Leases Payable	-
Loan Payable	111,979
Revenue Bonds Payable	5,441,099
Net Pension Liability	<u>260,550</u>
Total Long-Term Liabilities	<u>5,553,079</u>
Total Liabilities	<u>\$ 6,276,711</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Amounts Related to Pensions	<u>1,202</u>
Total Deferred Inflows of Resources	<u>1,202</u>
NET POSITION	
Invested in Capital Assets	\$ 312,912
Restricted for:	
Revenue Bond Retirement	-
Unrestricted	<u>145,385</u>
NET POSITION	<u>\$ 458,297</u>

The notes to the Financial Statements are an integral part of this statement.

**CITY OF TAFT, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

EXHIBIT D-2

	Business-Type Activities Enterprise Fund Utility Fund
OPERATING REVENUES	
Water Sales	\$ 1,001,465
Sewer Sales	622,908
Sanitation Fees	564,393
Other Fees and Charges	92,583
Total Operating Revenues	2,281,349
OPERATING EXPENSES	
Personnel Costs	381,263
Contracted Services	367,814
Supplies	29,838
Maintenance	2,924
Other Operating Expenses	66,080
Subtotal	847,919
Water Purchased	407,966
Depreciation	208,921
Amortization	-
Total Operating Expenses	1,464,806
Net Operating Income	816,543
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	7
Interest and Fiscal Charges	(4,892)
Net Non-Operating Revenues (Expenses)	(4,885)
Income Before Transfers	811,658
Transfers in	560,381
Transfers (out)	(1,115,899)
Total Transfers	(555,518)
Change in Net Position	256,140
NET POSITION, October 1 (Beginning)	229,772
Prior Period Adjustment	(27,615)
NET POSITION, September 30 (Ending)	\$ 458,297

The notes to the Financial Statements are an integral part of this statement.

CITY OF TAFT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2016

EXHIBIT D-3

	Business-Type Activities Enterprise Fund Utility Fund
Cash flow from operating activities:	
Cash received from customers	\$ 2,274,801
Cash received from other funds for services	-
Cash payments to suppliers for goods and services	(870,475)
Cash payments to employees for services	(380,006)
Other adjustments	-
Net cash provided by operating activities	<u>1,024,320</u>
Cash flows from noncapital financing activities:	
Transfers to other funds	<u>(555,518)</u>
Cash Flows from Capital and Related Financing Activities:	
Principal Payment on bonds	(251,181)
Interest and Fiscal Charges Paid	(4,892)
Purchase of Capital Assets	(434,667)
Prior period adjustment	89,593
Net Cash Used for Capital and Related Financing Activities	<u>(601,148)</u>
Cash Flows from Investing Activities- Interest Income	<u>7</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(132,338)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>446,272</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 313,934</u></u>
Reconciliation of Operating Income to Net Cash	
Operating Activities	
Operating Income	\$ 816,543
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation	208,921
Amortization	-
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable (Net)	(18,779)
(Increase) Decrease in Due from Other Funds	-
(Increase) Decrease in Due from Other Governments	-
(Increase) Decrease in Prepaid Items	-
(Increase) Decrease in Inventory	12,231
Increase (Decrease) in Accounts Payable	(11,834)
Increase (Decrease) in Accrued Liabilities	9,880
Increase (Decrease) in Due to Other Funds	0
Increase (Decrease) in Capital Leases Payable	197
Increase (Decrease) in Compensated Absences	1,257
Increase (Decrease) in Customer Deposits	5,904
Net Cash Provided by Operating Activities	<u><u>\$ 1,024,320</u></u>

The notes to the Financial Statements are an integral part of this statement.

City of Taft, Texas

NOTES TO FINANCIAL STATEMENTS

City of Taft, Texas

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Taft, Texas, (the "City") was incorporated in 1890 under the provisions of the laws for the State of Texas. The City operates under a charter under a Home-Rule Charter, which was adopted on October 5, 1951, and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administration services. Other services include utilities and airport operations. The City operates with a Council-Manager type of government where the Mayor and four Council members are elected on a rotating schedule on a ward basis with 2 members for Ward 1 and 2 members for Ward 2. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered financially accountable. Blended component units, although legally separate entities are, in substance, part of the City operations and so data from these units are combined with data from the City. If applicable, discretely presented units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the City.

Blended Component Unit

The City did not have any blended component units.

Discretely Presented Component Units –

The City of Taft, Texas, Economic Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas, by providing financing of economic development objectives and infrastructure improvements. Revenues are provided primarily with funds derived from a one-half of one percent sales and use tax approved by the voters.

The City of Taft, Texas, Taft Quality Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas by providing providing financing for the promotion and development of new and expanded business enterprises. Revenues are provided primarily with funds derived from a one-fourth of one percent sales and use tax approved by the voters.

The Pride of Taft is another nonprofit group which provides marketing efforts for various commerce efforts for the city.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

The accounting policies of the City conform to generally accepted accounting principles applicable to governments as promulgated by the Governmental Accounting Standards Board (GASB).

B. Government-wide and fund financial statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of inter-fund activity, within the governmental and business-type activities columns, has been removed from these statements. However, any inter-fund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balances of current financial resources. The City has presented the following major governmental funds:

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

General Fund-

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

Utility Fund-

The Utility Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenue as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt services expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

D. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is not utilized by the City's accounting system. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditure or liabilities until the commitments are honored by inclusion in the subsequent year's budget. There are no significant encumbrances outstanding at September 30, 2016.

E. Cash and Investments

The City can legally invest in certificates of deposit, obligations of the U.S. Government and its Agencies or instrumentalities, State obligations, local government investment pools and certain money market funds.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

The City has implemented GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." As a governmental entity other than an external investment pool, in accordance with GASB 31 the City's investments are stated at market value, except for money market investments with remaining maturity of one year or less when purchased and nonparticipating interest earning investment contracts.

For purposes of the statement of cash flows, the enterprise and internal service funds consider cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased to be cash and cash equivalents.

F. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

G. Inventories

Inventories in the Proprietary Funds are valued at cost, which approximates market, using the first in/first out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

H. Inter-fund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

I. Transactions Between Funds

Legally authorized transfers are treated as inter-fund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on capital assets. Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	10-50 Years
Water and Sewer System	5-50 Years
Infrastructure	10-50 Years
Machinery and Equipment	3-10 Years
Improvements	10-50 Years
Vehicles	3-10 Years

K. Compensated Absences

In proprietary fund types, accumulated unpaid compensated absences are accrued when incurred. The accruals are reported as liabilities and expenses for the year incurred. The liability in the governmental fund types is recorded only in the Government-wide Financial Statements. The amount expected to be paid from current resources is not considered to be significant. The City allows employees to accumulate an unlimited amount of vacation and sick leave. Applicable liabilities in the governmental wide net assets and in the proprietary fund have been established to reflect these liabilities.

L. Net Assets and Fund Equity

In the government-wide financial statements and proprietary funds financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net assets invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments). All other net assets are considered unrestricted.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

M. Use of Estimates

The preparation of basic financial statements in conformance with GAAP requires management to make estimates and assumptions that affect the amount reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

N. Pensions

For purposes of measuring the net pension liability, deferred outflows or resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

II Reconciliation of Government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets at the Beginning of the year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of the Year	Change in Net Position
Land	\$ 10,524	\$ -	\$ 10,524	
Buildings	2,658,616	(1,630,568)	1,028,048	
Improvements	3,130,596	(1,924,144)	1,206,452	
Furniture & Equipment	1,608,397	(1,608,397)	-	
Vehicles	652,348	(569,739)	82,609	
Infrastructure	10,000,000	(6,750,000)	3,250,000	
Change in Net Assets	\$ 18,060,481	\$ (12,482,848)		\$ 5,577,633
Long-term Liabilities at the Beginning of the year				
Bonds and Loans Payable	\$ 61,777			
Compensated Absences & Other	59,891			
Capital Leases	60,104			
Deferred Amounts	-			
Total Long-term Liabilities	181,772			\$ (181,772)
Net Adjustment to Net Assets				\$ 5,395,861

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

Exhibit C-4 provides reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net Position	Adjustments to Net Position
<u>Current Year Capital Outlay</u>			
Land	\$ -	\$ -	\$ -
Buildings & Improvements	-	-	-
Furniture & Equipment	-	-	-
Infrastructure	-	-	-
Construction in Process	-	-	-
Total Capital Outlay	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Debt Principal Payments</u>			
Bond Principal - Net	-	-	-
Loan Principal	61,777	61,777	61,777
Capital Lease Payments	29,588	29,588	29,588
Other	30,365	30,365	30,365
Total Principal Payments	<u>121,730</u>	<u>121,730</u>	<u>121,730</u>
Total Adjustment to Net Assets	<u>\$ 121,730</u>	<u>\$ 121,730</u>	<u>\$ 121,730</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	Amount	Adjustments to Change in Net Assets	Adjustments to Net Assets
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 296,452	\$ 296,452	\$ 296,452
Uncollected Taxes (assumed collectible) from Current Year Levy	-	-	-
Uncollected Taxes (assumed collectible) from Prior Year Levy	-	-	-
Other	-	-	-
Total	<u>\$ 296,452</u>	<u>\$ 296,452</u>	<u>\$ 296,452</u>

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

III Stewardship, Compliance and Accountability

1 CASH AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Texas Government Code Charter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. Agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial Compliance with the requirements of the Act and with local policies.

A. Cash Deposits

At September 30, 2016, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$985,215 and the bank balance was \$891,439. The City's cash deposits at September 30, 2016 and during the period ended September 30, 2016, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

B. Investments

As of September 30, 2016, the City had no investments:

Investment Maturities (In Years)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 2</u>	<u>2 to 3</u>
Investment Pools:				
N/A	-	-	-	-
Total Fair Value	\$ -	\$ -	\$ -	\$ -

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

Interest Rate Risk- In accordance with state law and City policy, the City does not purchase any investments with maturities greater than 10 years.

Credit Risk- In accordance with state law and the City's investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in obligations from other states, municipalities, countries, etc. must be rated at least A. The City's investments in investment pools were rated AAA.

Concentration of Credit Risk- the City does not place a limit on the amount the City may invest in any one issuer. The City does not have a concentration of credit risk.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a custodial credit risk.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

1. CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2016, was as follows:

	Balance October 1st	Additions/ Completions	Retirements/ Adjustments	Balance September 30th
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 10,524	\$ -	\$ -	\$ 10,524
Construction in Progress	-	\$ 4,000	-	4,000
Total Capital assets, not being depreciated	10,524	4,000	-	14,524
Capital Asset being depreciated:				
Buildings	2,658,616	44,150	-	2,702,766
Improvements	3,130,596	-	-	3,130,596
Equipment	1,608,397	17,755	-	1,626,152
Vehicles	652,348	-	-	652,348
Infrastructure	10,000,000	179,393	-	10,179,393
Total capital assets, being depreciated	18,049,957	241,298	-	18,291,255
Less accumulated depreciation for:				
Buildings	(1,630,568)	(67,569)	-	(1,698,138)
Improvements	(1,924,144)	(78,265)	-	(2,002,409)
Equipment	(1,608,397)	(1,776)	-	(1,610,173)
Vehicles	(569,739)	(11,801)	-	(581,540)
Infrastructure	(6,750,000)	(267,939)	-	(7,017,939)
Total accumulated depreciation	(12,482,849)	(427,350)	-	(12,910,199)
Total capital assets being depreciated, net	5,567,109	(186,052)	-	5,381,057
Governmental activities capital assets, net	5,577,633	(182,052)	-	5,395,581
Business-type Activities				
Capital Assets, not being depreciated				
Land	-	-	-	-
Construction in Progress	32,000	426,200	458,200	-
Total capital assets, not being depreciated	32,000	426,200	458,200	-
Capital Assets, being depreciated				
Buildings	32,668	-	-	32,668
Improvements	-	-	-	-
Equipment	399,016	8,466	-	407,482
Water System	1,624,910	458,200	-	2,083,110
Sewer System	8,248,521	-	-	8,248,521
Total capital assets, being depreciated	10,305,115	466,666	-	10,771,781
Less accumulated depreciation for:				
Buildings	(33,063)	-	-	(33,063)
Improvements	-	-	-	-
Equipment	(386,043)	(2,288)	-	(388,331)
Water System	(1,489,074)	(41,662)	-	(1,530,736)
Sewer System	(2,465,134)	(164,970)	-	(2,630,105)
Total accumulated depreciation	(4,373,314)	(208,921)	-	(4,582,235)
Total capital assets, being depreciated, net	5,931,801	257,746	-	6,189,547
Business-type activities capital assets, net	\$ 5,963,801	\$ 683,946	\$ 458,200	\$ 6,189,547

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental Activities:	
General Government and Administration	74,159
Public Works - Street Department	190,745
Parks and Recreation	56,363
Public Safety - Police Department	39,628
Public Safety - Fire Department	66,456
Total Depreciation Expense - Governmental Activities	<u>427,351</u>
Business-type Activities:	
Water System	41,662
Sewer System	164,970
Machinery and Equipment/Buildings	2,288
Total Depreciation Expense - Business-type Activities	<u>208,921</u>

2. LONG-TERM DEBT

At September 30, 2016, long-term debt consisted of the following individual issues:

	<u>Governmental</u>
(1) Capital Lease Payable	\$ 30,515
	<u> </u>
Total Long-Term Debt	<u>\$ 30,515</u>

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended September 30, 2016:

	Balance October 1st	Additions	Reductions	Transfers	Balance September 30th	Due Within One Year
Governmental Activities:						
Compensated Absences	\$ 59,891	\$ 6,724	\$ 30,365	\$ -	\$ 36,251	\$ 9,063
Notes Payable	61,777	-	61,777	-	-	-
Capital Leases Payable	60,104	-	29,588	-	30,515	30,515
Total Governmental Activities	181,772	6,724	121,730	-	66,766	39,578
Business-type Activities:						
TWDB Certificate of Obligation Bonds 2010	5,201,000	-	193,000	-	5,008,000	193,000
Certificate of Obligation Bonds 2010	745,603	-	58,181	-	687,422	61,323
Loan Payable	141,805	117,000	84,066	-	174,738	62,759
Capital Leases	12,749	-	6,276	-	6,473	6,473
Compensated Absences	23,718	3,963	2,706	-	24,975	624
Total Business-type Activities	6,124,875	120,963	344,230	-	5,901,608	324,179
Total Government	\$ 6,306,646	\$ 127,688	\$ 465,960	\$ -	\$ 5,968,374	\$ 363,757

The annual requirements for bonds for years subsequent to September 30, 2016, are as follows:

Year Ending September 30	Governmental Activities General/Certificate Obligations/Notes Payable			Business-type Activities Revenue Bonds Loan Payable		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ -	\$ -	\$ -	\$ 317,081	\$ 42,438	\$ 359,519
2018	-	-	-	308,330	37,012	345,343
2019	-	-	-	285,324	31,751	317,075
2020	-	-	-	290,624	26,352	316,976
2021	-	-	-	279,943	20,903	300,846
Thereafter	-	-	-	4,388,856	38,579	4,427,436
Total	\$ -	\$ -	\$ -	\$ 5,870,159	\$ 197,035	\$ 6,067,194

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

The annual requirements for capital leases for years subsequent to September 30, 2016, are as follows:

Year Ending September 30	Governmental Activities Capital Leases Payable			Business-type Activities Capital Leases Payable		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 30,515	\$ 956	\$ 31,472	\$ 6,473	\$ 203	\$ 6,676
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-
Total	<u>\$ 30,515</u>	<u>\$ 956</u>	<u>\$ 31,472</u>	<u>\$ 6,473</u>	<u>\$ 203</u>	<u>\$ 6,676</u>

RESTRICTED CASH AND INVESTMENTS- UTILITY FUND

Revenue Bonds-

Water and Sewer Revenue Bonds constitute special obligations of the City solely secured by a lien on the pledge of the net revenues of the water and sewer system.

The Revenue Bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond funds. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions which, among other items, restrict the issuance of additional Revenue Bonds unless the special funds noted above contain the required amounts. Management of the City believes that it is in the compliance with all significant financial requirements as of September 30, 2016.

Authorized but Not Issued Debt-

None

COMMITMENTS UNDER NON-CAPITALIZED LEASES

Operating Leases:

The City leases equipment. Most of the leases are cancelable.

Minimum lease commitments for the next five years are immaterial.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

3. INTERFUND TRANSACTIONS AND BALANCES

Inter-fund balances at September 30, 2016 consisted of the following individual fund balances:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund:		
Special Revenue Fund	\$ -	\$ 40,096
Enterprise Funds	1,405	-
Total General Fund	<u>1,405</u>	<u>40,096</u>
Special Revenue Fund:		
General Fund	<u>40,096</u>	<u>-</u>
Enterprise Funds:		
General Fund	<u>-</u>	<u>1,405</u>
Total	<u><u>\$ 41,501</u></u>	<u><u>\$ 41,501</u></u>

The inter-fund balances at September 30, 2016 are generally short-term loans to cover temporary cash flows and reimbursements for various funds.

Inter-fund transfers during the year ended September 30, 2016 were as follows:

<u>Transfer In</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Special Revenue Funds</u>	<u>Utility Fund</u>	<u>Total</u>
Utility Fund	\$ 1,070,899	\$ -	\$ 45,000	\$ -	\$ 1,115,899
General Fund	-	-	-	-	-
Debt Service Fund	-	-	-	251,181	251,181
Special Revenue Fund	4,874	-	-	309,200	314,074
Total	<u>1,075,773</u>	<u>-</u>	<u>45,000</u>	<u>560,381</u>	<u>1,681,154</u>
Less Transfers	<u>-</u>	<u>(251,181)</u>	<u>(314,074)</u>	<u>(1,115,899)</u>	<u>(1,681,154)</u>
Net Transfers	<u><u>\$ 1,075,773</u></u>	<u><u>\$ (251,181)</u></u>	<u><u>\$ (269,074)</u></u>	<u><u>\$ (555,518)</u></u>	<u><u>\$ -</u></u>

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

5. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2016, were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	\$ 150,600	\$ -	\$ -	\$ 111,353	\$ 261,953
Major Governmental Funds	127,636	-	187,724	-	315,360
Non-major Governmental Funds	-	-	-	-	-
Total - Governmental Activities	<u>\$ 278,236</u>	<u>\$ -</u>	<u>\$ 187,724</u>	<u>\$ 111,353</u>	<u>\$ 577,313</u>

Payables at September 30, 2016, were as follows:

	Accounts Payable	Loans, Leases and Bonds Payable Current Year	Salaries and Benefits	Due to Other Funds	Due to Other Governments	Other	Total Payables
Governmental Activities:							
General Fund	\$ 348,123	\$ -	\$ 9,063	\$ 227,820	\$ -	\$ 21,270	\$ 606,276
Major Governmental Fund	-	30,515	-	-	-	-	30,515
Non-major Governmental Fund	-	-	-	-	-	-	-
Total - Governmental Activities	<u>\$ 348,123</u>	<u>\$ 30,515</u>	<u>\$ 9,063</u>	<u>\$ 227,820</u>	<u>\$ -</u>	<u>\$ 21,270</u>	<u>\$ 636,791</u>

6. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Property taxes are levied on October 1 based on 100% of appraise value of property as listed on the previous January 1. Appraised values are determined by the San Patricio County Appraisal District; approved by the San Patricio County Appraisal Review Board; and certified by the Chief Appraiser. Property taxes are due upon receipt of the tax bill and are delinquent if not paid before February of the year following the year in which imposed. The city does not offer a discount or early payment of taxes. The City's taxes are billed and collected by the San Patricio County Tax Assessor Collector. Ad valorem taxes of \$807,253 were assessed on property values totaling \$86,880,184 using a tax rate of \$0.961672 (\$0.643209 for general operations and \$0.318463 for debt service) per \$100 assessed value. Additional Ad valorem taxes of \$84,587 were assessed on disannexed property with values totaling \$20,259,306 using a tax rate of \$0.419217 for debt service per \$100 assessed value.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

7. PENSION PLAN

A. Plan Description

The City of Taft participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the City are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Plan Provisions:

The plan provisions are adopted by the governing body of the City of Taft, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2015	Plan Year 2016
Employee Deposit Rate	7.00%	7.00%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as Age / Years of Service)	60/5,0/25	60/5,0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to Retirees)	30% of CPI Repeating	30% of CPI Repeating

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

7. PENSION PLAN (Continued)

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	95
Active employees	31
Total	<u>137</u>

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Taft were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City of Taft were 11.67% and 12.23% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$120,783 and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

7. PENSION PLAN (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with Blue Collar male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

7. PENSION PLAN (Continued)

Discount Rate:

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2014	\$ 2,743,072	\$ 2,146,915	\$ 596,157
Changes for the year:			
Service cost	166,770	-	166,770
Interest	192,863	-	192,863
Change of benefit terms	-	-	-
Difference between expected and actual experience	36,416	-	36,416
Changes of assumptions	101,816	-	101,816
Contributions - employer	-	119,931	(119,931)
Contributions - employee	-	74,499	(74,499)
Net investment income	-	3,171	(3,171)
Benefit payments, including refunds of employee contributions	(142,536)	(142,536)	-
Administrative expense	-	(1,930)	1,930
Other changes	-	(95)	95
Net changes	355,329	53,040	302,289
Balance at 12/31/2015	\$ 3,098,401	\$ 2,199,955	\$ 898,446

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 1,324,324	\$ 898,446	\$ 550,258

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

7. PENSION PLAN (Continued)

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the Internet at www.tnrs.com.

E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$224,585.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ 11,811	\$ 4,143
Changes in actuarial assumptions	33,021	-
Difference between projected and actual investment earnings (net of current year amortization)	132,991	-
Contributions subsequent to the measurement date	88,335	-
Total	<u>\$ 266,158</u>	<u>\$ 4,143</u>

\$ 88,335 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2016	\$ 75,213
2017	\$ 34,524
2018	\$ 34,522
2019	\$ 29,421
2020	\$ -
Thereafter	\$ -

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

7. PENSION PLAN (Continued)

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Regarding supplemental Death Benefits in compliance with GASB Statement 45, the City does offer supplemental death benefits to active or retirees for the 2015 or 2016 plan years.

City Supplemental Death to:	Plan Year 2015	Plan Year 2016
Active Employees (Yes or No)	Yes	Yes
Retirees (Yes or No)	Yes	Yes

Contributions

The city contributes to the Supplemental Death Benefits Fund at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the Supplemental Death Benefits Fund program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2016, 2015, and 2014 were \$2,801, \$4,083 and \$3,869, respectively, which equaled the required contributions each year.

Health Insurance and Post Employment Health Care Benefits

In addition to providing pension benefit, the City provides certain health care benefits for retired employees for a maximum time period of 24 months as allowed for employees who have met the following requirements: Employees who have reached the age of 58, are eligible for the Texas Municipal Retirement System benefits, who have at least 20 years of credited service, 10 years of which must be continuous service with the City of Taft. Also, retirees will be eligible to continue major medical health and dental insurance for up to 24 months or until the age of 65 or until eligible for Medicare Insurance benefits.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

8. COMMITMENTS AND CONTINGENT LIABILITIES/SUBSEQUENT EVENTS

There are claims and/or lawsuits pending against the City that were required to be disclosed. The City has not accrued any potential liability pending its lawsuits. No liability has been established for any pending and outstanding suits. The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives.

9. PRIOR PERIOD ADJUSTMENTS

During the year ended September 30, 2016, prior period adjustments were made to correctly reflect fund balances to actual. The effect of these prior period adjustments was as follows: An adjustment of \$24,678 was made to the general fund which increased the ending net position and fund balance. An adjustment of (\$18,534) was made to the firemen's operating fund which decreased the ending net position and fund balance. An adjustment of (\$8,033) was made to the criminal justice planning fund which decreased the ending net position and fund balance. An adjustment of \$51 was made to the TDA grant fund which increased the ending net position and fund balance. An adjustment of (\$27,615) was made to the utility fund, however due to an operating surplus there was an increase to the ending net position and fund balance.

10. FUND BALANCE DEFICIT

At September 30, 2016, the General Fund had a deficit fund balance of (\$212,036), and the Criminal Justice Planning Fund had a deficit fund balance of (\$129,210).

11. ISSUE/SUBSEQUENT EVENTS

The City is currently in a small deficit in the General Fund and corrections must be done in order for the City to return its fund balance to at least three months of annual operations. The City is working toward that goal and working on improvements. The Council has evaluated subsequent events through September 11, 2017 the date which the financial statements were available to be issued.

12. GASB 68

GASB 68 – establishes standards for accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements criteria as described in GASB 67. This statement replaces the requirements of GASB Statement 27, Accounting for Pensions by State and Local Governmental Employers. Statement No. 71 amends Statement No. 68 to required that, at transition, a government recognize a beginning outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning pension liability.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

13. FUND BALANCES – GASB 54

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The classifications are as follows:

Non-spendable - The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of inter-fund loans.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandates payment

of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the City of Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council or state statute. Board of Trustees or a District official delegated that authority by the City Council.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

13. FUND BALANCES – GASB 54 (Continued)

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

City Fund Balance Policy

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used. The City has in the past and plans to continue in the future its conservative approach to monitoring expenditures to ensure that fund balances stay strong at the 25% general fund policy level. The General Fund will need to re-build with future revenues.

By a majority vote in a scheduled meeting of the City Council, the Council may commit fund balances and it may modify or rescind these commitments. The Council may also delegate authority to persons or parties to assign fund balances in specific circumstances or funds.

Restricted	
Retirement of Long Term Debt	\$ 299,526
Special Revenue	407,459
Capital Projects	-
Assigned Fund Balances	-
Undesignated/Unassigned	(341,244)
Total Fund Balance	<u>\$ 365,741</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TAFT, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

BUDGETARY DATA

Annual budgets are legally adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects fund, and the Asset Seizures and Forfeitures Fund, which are Special Revenue Funds. City Manager is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures of a department must be approved by the City Council. Budgeted amounts reported in the 2015-2016 financial statements present the original and final amended budget approved by the Council. All unencumbered budget appropriations except project budgets, lapse at the end of each fiscal year. The following procedures are used by the City in establishing the budgetary date reflected in the financial statements:

1. Prior to August 6th each year, the City Manager is required to submit a proposed budget to the City Council. The operating budget includes proposed expenditures and the means of financing them.
2. Advertised public hearings are conducted.
3. The budget is required to be approved by September 20th.
4. The tax rates are approved after the budget has been approved.
5. The budget may be amended as considered necessary. The budget and tax rates are enacted through the passage of ordinances.

CITY OF TAFT, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
ANALYSIS OF FUNDING PROGRESS

LAST FOUR VALUATION DATES

The funded status as of December 31, 2015, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as of Percentage of Covered Payroll
	(1)	(2)	(3) (1)/(2)	(4) (2)-(1)	(5)	(6) (4)/(5)
12/31/2012	\$ 1,693,388	\$ 2,169,809	78.0%	\$ 476,421	\$ 1,349,393	35.3%
12/31/2013	1,879,766	2,607,671	72.1%	727,905	1,383,429	52.6%
12/31/2014	2,064,310	2,743,072	75.3%	678,762	1,111,280	61.1%
12/31/2015	\$ 2,253,637	\$ 3,098,401	72.7%	\$ 844,764	\$ 1,064,265	79.4%

CITY OF TAFT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Plan Year Ended December 31,	
	2015	2014
Total Pension Liability		
Service cost	\$ 166,770	\$ 178,906
Interest (on the total pension liability)	192,863	183,803
Changes of benefit terms	-	-
Difference between expected and actual experience	36,416	(84,571)
Change of assumptions	101,816	-
Benefit payments, including refunds of employee contributions	(142,536)	(142,737)
Net Change in Total Pension Liability	355,329	135,401
Total Pension Liability - Beginning	2,743,072	2,604,671
Total Pension Liability - Ending (a)	3,098,401	2,740,072
 Plan Fiduciary Net Position		
Contributions - employer	119,931	104,293
Contributions - employee	74,499	77,790
Net investment income	3,171	114,128
Benefit payments, including refunds of employee contributions	(142,536)	(142,737)
Administrative expense	(1,930)	(1,191)
Other	(95)	(98)
Net Change in Plan Fiduciary Net Position	53,040	152,185
Plan Fiduciary Net Position - Beginning	2,146,915	1,994,730
Plan Fiduciary Net Position - Ending (b)	2,199,955	2,146,915
 Net Pension Liability - Ending (a) - (b)	\$ 898,446	\$ 593,157
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	71.00%	78.35%
 Covered Employee Payroll	\$ 1,064,265	\$ 1,111,280
 Net Pension Liability as a Percentage of Covered Employee Payroll	84.42%	53.38%

CITY OF TAFT
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Fiscal Year Ended September 30,	
	2016	2015
Actuarially determined contribution	\$ 120,783	\$ 114,529
Contributions in relation to actuarially determined contribution	<u>(120,783)</u>	<u>(114,529)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 1,000,324	\$ 1,020,793
Contributions as a percentage of covered employee payroll	12.07%	11.22%

CITY OF TAFT
NOTES TO SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information: Adopted restricted prior service credit.

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES AS SUPPLEMENTARY INFORMATION

City of Taft, Texas

GOVERNMENTAL FUNDS

City of Taft, Texas

GENERAL FUND

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The general operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund. The Fund uses the modified accrual basis of accounting.

City of Taft, Texas

**CITY OF TAFT, TEXAS
GENERAL FUND
BALANCE SHEET
SEPTEMBER 30, 2016
(WITH MEMO TOTALS FOR SEPTEMBER 30, 2015)**

EXHIBIT H-1

	<u>2016</u>	(MEMO) (TOTALS) (2015)
ASSETS		
Cash and Texpool Accounts	\$ -	\$ -
Receivables and Allowances:		
Accounts		
Miscellaneous	111,353	121,617
Ad Valorem Taxes	158,526	119,462
Allowance for Uncollectible Accounts	(7,926)	(5,973)
Due from Other Funds	78,601	78,601
TOTAL ASSETS	<u>340,554</u>	<u>313,707</u>
 LIABILITIES AND FUND BALANCE		
Accounts Payable	215,962	298,540
Deferred Revenue	18,216	59,368
Other Payables	21,270	20,278
Due to Other Funds	146,542	99,885
TOTAL LIABILITIES	<u>401,990</u>	<u>478,070</u>
 DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue -Property Taxes	150,600	113,488
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>150,600</u>	<u>113,488</u>
 FUND BALANCE		
Unreserved		
Undesignated	(212,036)	(277,852)
TOTAL FUND BALANCE	<u>(212,036)</u>	<u>(277,852)</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 340,554</u>	<u>\$ 313,707</u>

**CITY OF TAFT, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES
BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(WITH MEMO TOTALS FOR SEPTEMBER 30, 2015)**

**EXHIBIT H-2
Page 1 of 2**

	2016			(MEMO) (TOTALS) (2015)	
	BUDGETED AMOUNTS		Variance with Final Budget		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>	<u>Actual</u>
REVENUES					
Taxes					
Ad valorem- Current	\$ 444,293	\$ 498,569	\$ 498,569	\$ (0)	\$ 361,461
Ad valorem- Delinquent	75,000	74,932	74,932	(0)	130,624
Ad valorem- Penalty & Interest	40,000	36,493	36,493	(0)	53,201
Arrest Fees	150	160	160	(0)	207
City Sales Taxes	180,000	186,018	203,361	17,343	200,976
Street Maintenance Sales Tax	45,000	111,497	-	(111,497)	-
EDC Monthly Expense Fee	-	-	-	-	-
Franchise	102,000	66,599	104,137	37,538	109,682
4-A Sales Tax (TQIC)	45,000	46,504	(0)	(46,504)	-
4-B Sales Tax (EDC)	90,000	93,009	-	(93,009)	-
Total Taxes	1,021,443	1,113,781	917,651	(196,130)	856,151
Animal Licenses	5,300	11,482	11,482	(1)	5,750
Business Licenses	300	22,365	22,365	-	285
Building Permits	17,000	14,425	14,425	-	18,740
Electrical Permits	3,000	4,113	4,113	(0)	5,009
Plumbing Permits	3,000	5,639	5,639	-	3,449
Other Permits	600	-	-	-	-
Mechanical Permits	400	284	284	0	460
Total Licenses and Permits	29,600	58,308	58,308	(0)	33,693
Intergovernmental					
Grants- Other	1,000	8,155	8,155	(0)	3,925
Total Intergovernmental	\$ 1,000	\$ 8,155	\$ 8,155	\$ (0)	\$ 3,925

CITY OF TAFT, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES
BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(WITH MEMO TOTALS FOR SEPTEMBER 30, 2015)

EXHIBIT H-2
Page 2 of 2

	2016			(MEMO) (TOTALS) (2015)
	BUDGETED AMOUNTS		Variance with Final Budget Variance	Actual
	Original	Final		
REVENUES				
Charges for Services				
Rural Fire Calls	\$ -	\$ -	\$ -	\$ -
Jury Reimbursement Fees	1,500	1,166	1,158	1,854
Weed Control Charges	-	-	-	-
T Mobile Rent Fee	12,000	12,600	12,600	12,400
Rezoning Applications	-	-	-	-
Child Safety Fee	4,000	4,204	4,204	4,284
Library	-	-	-	-
Tax Certificates	-	-	-	-
Notary Revenue	100	-	-	111
Subtotal	17,600	17,970	17,963	18,648
Fines and Penalties	65,000	36,093	35,162	53,852
Other Revenues				
Other/Municipal Court Fines	600	266	241	560
Interest	200	33	227	280
EMS Billings/Contributions	124,250	25,694	25,694	97,832
Code Enforcement Fines	4,000	500	500	-
Community Center Fees	4,500	4,930	4,870	5,190
Right of Way Fee	550	763	763	694
TQIC	40,000	36,000	-	(36,000)
Sale of Assets	300	760	760	(0)
Miscellaneous	25,600	94,005	69,329	(24,676)
Fingerprint Fees	-	-	-	-
Copy & Map Sales	1,500	1,950	1,950	(0)
Insurance Refund	-	4,373	4,373	0
Other	5,000	-	18,340	18,340
Juvenile Case Manager	-	-	-	-
County EMS Subsidy	20,100	24,189	24,189	(0)
Street User Fee	67,000	-	36,000	36,000
State Revenues	-	-	-	-
Sprint Binder Fee/Rent	14,950	14,548	14,548	(1)
Subtotal	308,550	208,011	201,783	(6,228)
Total Revenues	1,443,193	1,442,318	1,239,022	(203,296)
OTHER SOURCES- Operating Transfers				
Capital - related Debt Issued	-	-	-	-
Transfers	1,070,899	981,657	1,075,773	94,116
Total Operating Transfers	1,070,899	981,657	1,075,773	94,116
TOTAL REVENUES AND OTHER SOURCES	\$ 2,514,092	\$ 2,423,975	\$ 2,314,795	\$ (109,180)
				\$ 2,121,598

**CITY OF TAFT, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(WITH MEMO TOTALS FOR SEPTEMBER 30, 2015)**

	2016			
	BUDGETED AMOUNTS		Personnel	Supplies &
	Original	Final	Costs	Services
Current Expenditures				
General Administration	\$ 852,923	\$ 700,092	\$ 51,459	\$ 558,809
Finance	164,861	174,065	172,365	3,551
Municipal Court	40,949	42,058	25,147	17,207
Administration	72,000	137,962	106,591	67,946
Legislative	36,468	33,594	26,988	7,147
Tax Collection	15,500	14,765	-	18,590
Total General Administration	1,182,701	1,102,536	382,551	673,250
Public Safety				
Police	574,733	575,249	478,919	83,301
Fire	9,900	342	-	569
Emergency Medical Services	248,397	250,007	111,061	143,119
Animal Control	1,910	1,318	-	1,318
Code Enforcement	68,586	68,557	55,772	5,692
Total Public Safety	903,526	895,473	645,753	233,999
Public Works				
Streets/Maintenance Department	253,166	152,478	97,536	73,533
Total Public Works	253,166	152,478	97,536	73,533
Culture and Recreation				
Library	62,582	59,690	59,967	617
Parks/Community Center	38,515	38,298	31,476	7,213
Museum	-	-	-	-
Community Centers	8,940	6,785	6,032	992
Total Parks and Recreation	110,037	104,773	97,476	8,822
Total Current Expenditures	\$ 2,449,430	\$ 2,255,260	\$ 1,223,316	\$ 989,604

EXHIBIT H-3

				(MEMO) (TOTALS) (2015)
2016				
Variance with Final Budget Variance				
Debt Service	Capital Outlay	Total Actual		Actual
\$ -	\$ 4,000	\$ 614,268	\$ 85,824	\$ 544,831
-	-	175,916	(1,851)	183,047
-	-	42,355	(297)	46,401
-	-	174,537	(36,575)	98,226
-	-	34,135	(541)	2,594
-	-	18,590	(3,825)	22,294
-	4,000	1,059,802	42,734	897,394
-	18,616	580,837	(5,588)	561,094
-	-	569	(227)	1,420
-	30,341	284,521	(34,514)	331,431
-	-	1,318	0	885
-	7,780	69,245	(688)	62,253
-	56,738	936,490	(41,017)	957,083
-	-	171,069	(18,591)	150,819
-	-	171,069	(18,591)	150,819
-	-	60,584	(894)	59,409
-	-	38,689	(391)	39,266
-	-	-	-	-
-	-	7,024	(239)	8,051
-	-	106,297	(1,524)	106,725
\$ -	\$ 60,738	\$ 2,273,657	\$ (18,397)	\$ 2,112,021

City of Taft, Texas

NON-MAJOR GOVERNMENTAL FUNDS

CITY OF TAFT, TEXAS
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2016
(WITH MEMO TOTALS FOR SEPTEMBER 30, 2015)

	Series 2010 Debt Serv. Fund	Juvenile Case Manager Fund	Taft Court Technology Fund	Taft Park Fund	Pride of Taft Fund	Taft Building & Security Fund	Firemen's Pension Fund
ASSETS							
Cash and Cash Equivalents	\$ 156	\$ 19,445	\$ 25,041	\$ -	\$ 3,464	\$ 14,677	\$ 149,083
Receivables	-	-	-	-	-	-	-
Due from Other Governments	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-
TOTAL ASSETS	<u>156</u>	<u>19,445</u>	<u>25,041</u>	<u>-</u>	<u>3,464</u>	<u>14,677</u>	<u>149,083</u>
LIABILITIES AND FUND BALANCE							
Accounts Payable	-	-	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-
Due to Others	-	-	-	-	-	-	-
Due to Other Funds	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE							
Restricted for Special Revenue	-	19,445	25,041	-	3,464	14,677	149,083
Restricted for Debt Service	156	-	-	-	-	-	-
Unassigned	0	-	-	-	-	-	-
TOTAL FUND BALANCE	<u>156</u>	<u>19,445</u>	<u>25,041</u>	<u>-</u>	<u>3,464</u>	<u>14,677</u>	<u>149,083</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 156</u>	<u>\$ 19,445</u>	<u>\$ 25,041</u>	<u>\$ -</u>	<u>\$ 3,464</u>	<u>\$ 14,677</u>	<u>\$ 149,083</u>

EXHIBIT H-4

Firemen's Operating Fund	Forfeitures Fund	Taft Emergency Services Fund	Series 2004 Debt Service Fund	Police Department	Criminal Justice Planning Fund	Police Dept A/C Donation Fund
\$ 83,530	\$ 0	\$ 33	\$ 3,156	\$ 13,500	\$ -	\$ 2,498
-	-	-	-	-	-	-
-	-	-	-	-	-	-
80,907	2,500	-	-	-	-	-
<u>164,437</u>	<u>2,500</u>	<u>33</u>	<u>3,156</u>	<u>13,500</u>	<u>-</u>	<u>2,498</u>
-	-	-	-	-	129,210	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>77,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>77,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,210</u>	<u>-</u>
87,241	2,500	33	3,156	13,500	-	2,498
-	-	-	-	-	-	-
-	-	-	-	-	(129,210)	-
<u>87,241</u>	<u>2,500</u>	<u>33</u>	<u>3,156</u>	<u>13,500</u>	<u>(129,210)</u>	<u>2,498</u>
<u>\$ 164,437</u>	<u>\$ 2,500</u>	<u>\$ 33</u>	<u>\$ 3,156</u>	<u>\$ 13,500</u>	<u>\$ -</u>	<u>\$ 2,498</u>

**CITY OF TAFT, TEXAS
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2016
(WITH MEMO TOTALS FOR SEPTEMBER 30, 2015)**

EXHIBIT H-4

	Municipal Court Fund	Drug Seizure Fund	Street Fund	TDA Grant Fund	Total Nonmajor Governmental Funds 2016	(MEMO) (TOTALS) (2015)
ASSETS						
Cash and Cash Equivalents	\$ 32,719	\$ 19,888	\$ 8,801	\$ 3	\$ 375,993	\$ 513,792
Receivables	-	-	7,861	2,950	10,812	12,360
Due from Other Governments	-	-	-	-	-	-
Due from Other Funds	-	-	21,634	-	105,041	90,387
TOTAL ASSETS	32,719	19,888	38,296	2,953	491,846	616,540
LIABILITIES AND FUND BALANCE						
Accounts Payable	-	-	-	2,950	132,161	121,669
Deferred Revenue	-	-	-	-	-	-
Due to Others	-	-	-	-	-	-
Due to Other Funds	-	-	4,082	-	81,278	77,196
TOTAL LIABILITIES	-	-	4,082	2,950	213,439	198,866
FUND BALANCE						
Restricted for Special Revenue	32,719	19,888	34,214	-	407,459	539,188
Restricted for Debt Service	-	-	-	-	156	155
Unassigned	-	-	-	3	(129,208)	(121,669)
TOTAL FUND BALANCE	32,719	19,888	34,214	3	278,407	417,674
TOTAL LIABILITIES & FUND BALANCE	\$ 32,719	\$ 19,888	\$ 38,296	\$ 2,953	\$ 491,846	\$ 616,540

City of Taft, Texas

CITY OF TAFT, TEXAS
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(WITH MEMO TOTALS FOR SEPTEMBER 30, 2015)

	Series 2010 Debt Serv. Fund	Juvenile Case Manager Fund	Taft Court Technology Fund	Taft Park Fund	Pride of Taft Fund	Taft Building & Security Fund	Firemen's Pension Fund
REVENUE							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-	-
Interest	0	-	-	-	3	-	-
Other	-	-	1,158	-	50	869	107
TOTAL REVENUES	<u>\$ 0</u>	<u>\$ -</u>	<u>\$ 1,158</u>	<u>\$ -</u>	<u>\$ 53</u>	<u>\$ 869</u>	<u>\$ 107</u>
EXPENDITURES							
Current							
Personnel Costs	-	-	-	-	-	-	3,465
Supplies	-	-	-	-	-	-	91
Other Services and Charges	-	-	-	-	616	-	-
Capital Outlay	-	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>616</u>	<u>-</u>	<u>3,556</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	0	-	1,158	-	(564)	869	(3,449)
OTHER FINANCE SOURCES (USES)							
OTHER FINANCING - Bonds	-	-	-	-	-	-	-
Transfer In from Other Funds	-	-	-	-	-	-	-
Transfer (Out) to Other Funds	-	-	-	-	-	-	-
TOTAL OTHER FINANCE SOURCES(USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REV. AND OTHER SOURCES OVER EXPENDITURES & OTHER USES	0	-	1,158	-	(564)	869	(3,449)
FUND BALANCE, beginning of year	155	19,445	23,883	-	4,028	13,808	152,532
Prior Period Adjustment	-	-	-	-	-	-	-
FUND BALANCE, end of year	<u>\$ 155</u>	<u>\$ 19,445</u>	<u>\$ 25,041</u>	<u>\$ -</u>	<u>\$ 3,464</u>	<u>\$ 14,677</u>	<u>\$ 149,083</u>

EXHIBIT H-5

Firemen's Operating Fund	Forfeitures Fund	Taft Emergency Services Fund	Series 2004 Debt Serv. Fund	Police Department	Criminal Justice Planning Fund	Police Dept A/C Donation Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
36,665	-	18,650	-	-	-	-
51	-	7	2	10	-	1
100	-	-	-	5,174	441	40
<u>36,816</u>	<u>-</u>	<u>18,656</u>	<u>2</u>	<u>5,184</u>	<u>441</u>	<u>41</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
43,662	-	36,444	-	2,183	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>43,662</u>	<u>-</u>	<u>36,444</u>	<u>-</u>	<u>2,183</u>	<u>-</u>	<u>-</u>
(6,846)	-	(17,788)	2	3,000	441	41
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>(4,874)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>(4,874)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(6,846)	-	(22,661)	2	3,000	441	41
112,621	2,500	22,694	3,154	10,499	(121,618)	2,457
(18,534)	-	-	-	-	(8,033)	-
<u>\$ 87,241</u>	<u>\$ 2,500</u>	<u>\$ 33</u>	<u>\$ 3,156</u>	<u>\$ 13,500</u>	<u>\$ (129,210)</u>	<u>\$ 2,498</u>

**CITY OF TAFT, TEXAS
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(WITH MEMO TOTALS FOR SEPTEMBER 30, 2015)**

EXHIBIT H-5

	Municipal Court Fund	Drug Seizure Fund	Street Fund	TDA Grant Fund	Total Nonmajor Governmental Funds 2016	(MEMO) (TOTALS) (2015)
REVENUES						
Taxes	\$ -	\$ -	\$ 51,660	\$ -	\$ 51,660	\$ 53,355
Intergovernmental	-	-	-	-	55,315	89,871
Interest	18	10	23	3	127	147
Other	2,445	223	64,113	264,200	338,920	136,846
TOTAL REVENUES	2,464	233	115,797	264,203	446,022	280,220
EXPENDITURES						
Current						
Personnel Costs	-	-	-	-	3,465	3,420
Supplies	-	-	-	-	91	1,856
Other Services and Charges	18,060	5,000	180,178	-	286,144	75,599
Capital Outlay	-	-	-	-	-	-
TOTAL EXPENDITURES	18,060	5,000	180,178	-	289,700	80,875
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(15,597)	(4,767)	(64,382)	264,203	156,322	199,345
OTHER FINANCE SOURCES (USES)						
OTHER FINANCING - Bonds	-	-	-	-	-	-
Transfer In from Other Funds	-	-	-	45,000	45,000	3,985
Transfer (Out) to Other Funds	-	-	-	(309,200)	(314,074)	(56,309)
TOTAL OTHER FINANCE SOURCES(USES)	-	-	-	(264,200)	(269,074)	(52,324)
EXCESS (DEFICIENCY) OF REV. AND OTHER SOURCES OVER EXPENDITURES & OTHER USES	(15,597)	(4,767)	(64,382)	3	(112,752)	147,021
FUND BALANCE, beginning of year	48,316	24,656	98,596	(51)	417,675	270,859
Prior Period Adjustment	-	-	-	51	(26,567)	(205)
FUND BALANCE, end of year	\$ 32,719	\$ 19,888	\$ 34,214	\$ 3	\$ 278,356	\$ 417,675

PROPRIETARY FUNDS

City of Taft, Texas

ENTERPRISE FUND

Enterprise Funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the governing body is that costs (including depreciation) or providing goods or services to the General public on a continuing basis be financed or recovered primarily through the user charges. The Enterprise Funds use the accrual basis of accounting. The City maintains the following Enterprise Fund:

Utility Fund- established to account for the operations of the City's water and sewer system.

**CITY OF TAFT, TEXAS
STATEMENTS OF NET POSITION
UTILITY FUND
SEPTEMBER 30, 2016
(WITH MEMO TOTALS FOR SEPTEMBER 30, 2015)**

EXHIBIT I-1
Page 1 of 2

	<u>2016</u>	<u>(MEMO) (TOTALS) (2015)</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 313,934	\$ 446,272
Receivables and Allowances Accounts		
Water and Wastewater Billings	423,448	402,753
Allowance for Uncollectible Accounts	(33,828)	(31,911)
Due from Other Funds	-	-
Inventory	<u>26,475</u>	<u>38,706</u>
Total Current Assets	<u>730,029</u>	<u>855,819</u>
 Capital Assets:		
Construction in Progress	-	32,000
Buildings	32,668	32,668
Water System	2,083,110	1,624,910
Sewer System	8,248,521	8,248,521
Furniture and Equipment	<u>407,482</u>	<u>399,016</u>
Total Capital Assets	10,771,781	10,337,114
Less Accumulated Depreciation	<u>(4,582,235)</u>	<u>(4,373,315)</u>
Net Capital Assets	<u>6,189,545</u>	<u>5,963,800</u>
 TOTAL ASSETS	 <u><u>\$ 6,919,574</u></u>	 <u><u>\$ 6,819,618</u></u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflow Related to Pension Plan	<u>77,186</u>	<u>19,915</u>
Total Deferred Outflows of Resources	<u><u>\$ 77,186</u></u>	<u><u>\$ 19,915</u></u>

	2016	(MEMO) (TOTALS) (2015)
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 106,012	\$ 117,846
Accrued Liabilities	132,526	122,646
Compensated Absences	24,975	23,718
Due to Other Funds	1,405	1,405
Capital Leases Payable	6,473	6,276
Loan Payable	62,759	72,288
Current Portion of Revenue Bonds Payable	254,323	251,181
Customer Meter Deposits	135,160	129,255
Total Current Liabilities	723,632	724,615
Long-Term Liabilities		
Capital Leases Payable	-	6,473
Loan Payable	111,979	69,516
Bonds Payable	5,441,099	5,695,422
Net Pension Liability	260,550	105,860
Total Long-Term Liabilities	5,813,629	5,877,271
Total Liabilities	\$ 6,537,261	\$ 6,601,886
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	1,202	7,876
Total Deferred Inflows of Resources	1,202	7,876
NET POSITION		
Invested in Capital Assets	312,912	137,357
Restricted for:		
Revenue Bond Retirement	-	-
Unrestricted	145,385	92,414
Net Position	\$ 458,297	\$ 229,771

CITY OF TAFT, TEXAS
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
UTILITY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(WITH MEMO TOTALS FOR SEPTEMBER 30, 2015)

EXHIBIT I-2

	2016	(MEMO) (TOTALS) (2015)
OPERATING REVENUES		
Charges for Services		
Water Sales	\$ 1,001,465	\$ 924,599
Sewer Sales	622,908	599,398
Sanitation Fees	564,393	553,905
Other Fees and Charges	92,583	95,288
Total Operating Revenues	2,281,349	2,173,189
OPERATING EXPENSES		
Personnel Costs	381,263	335,489
Contracted Services	367,814	361,937
Supplies	29,838	26,799
Maintenance	2,924	3,000
Other Operating Expenses	66,080	56,318
Water Purchased	407,966	333,151
Depreciation	208,921	204,442
Amortization	-	-
Total Operating Expenses	1,464,806	1,321,137
Net Operating Income	816,543	852,052
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	7	143
Interest and Fiscal Charges	(4,892)	(8,979)
Net Non-Operating Revenues (Expenses)	(4,885)	(8,836)
Income Before Transfers	811,658	843,217
Transfers in	560,381	280,200
Transfers out	(1,115,899)	(941,575)
Change in Net Position	256,140	181,842
NET POSITION BEGINNING OF YEAR	229,772	296,999
Reclassification of Net Position	-	(93,840)
Prior Period Adjustment	(27,615)	(155,230)
Net Position, Beginning, as Restated	-	47,929
NET POSITION END OF YEAR	\$ 458,297	\$ 229,771

CITY OF TAFT, TEXAS

EXHIBIT I-3

UTILITY FUND

SCHEDULE OF OPERATING REVENUES AND EXPENSES- BY FUND

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

	Utility-Water Fund 20	Utility-Wastewater Fund 30	Utility Sanitation Fund 40	Total
OPERATING REVENUES				
Charges for Services				
Water Sales	\$ 999,865	\$ -	\$ -	\$ 999,865
Sewer Sales	-	622,908	-	622,908
Sanitation Fees	-	-	564,393	564,393
Water Taps	1,600	-	-	1,600
Sewer Taps	-	-	-	-
Total Charges for Services	1,001,465	622,908	564,393	2,188,766
Other Fees and Charges				
Delinquent Account Penalties	66,316	-	-	66,316
Reimbursement	-	-	-	-
Other	26,266	-	-	26,266
Total Other Fees and Charges	92,583	-	-	92,583
Total Operating Revenues	1,094,047	622,908	564,393	2,281,349
OPERATING EXPENSES				
Personnel Costs	168,052	121,524	91,688	381,263
Contracted Services	13,734	11,996	342,084	367,814
Supplies	19,684	9,587	567	29,838
Maintenance	3,000	-	(76)	2,924
Other Operating Expenses	30,331	22,979	12,770	66,080
SUBTOTAL	234,800	166,086	447,034	847,919
Water Purchased	407,966	-	-	407,966
Depreciation	41,662	167,259	-	208,921
Amortization	-	-	-	-
Total Operating Expenses	684,428	333,344	447,034	1,464,806
NET OPERATING INCOME	409,619	289,564	117,360	816,543
NON-OPERATING REVENUES (EXPENSES)				
Bond Proceeds	-	-	-	-
Interest Income	-	7	-	7
Interest and Fiscal Charges	(4,246)	729	(1,376)	(4,892)
Net Non-Operating Revenues (Expenses)	(4,246)	737	(1,376)	(4,885)
Income Before Transfers	405,373	290,301	115,984	811,658
Transfers in	309,200	251,181	-	560,381
Transfers (out)	(582,484)	(464,408)	(69,007)	(1,115,899)
Change in Net Position	132,089	77,074	46,977	256,140
NET POSITION BEGINNING OF YEAR	278,384	67,381	(115,992)	229,772
Prior Period Adjustment	276	(8,803)	(19,088)	(27,615)
NET POSITION END OF YEAR	\$ 410,749	\$ 135,651	\$ (88,103)	\$ 458,297

CITY OF TAFT, TEXAS
STATEMENTS OF CASH FLOWS
UTILITY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016
(WITH MEMO TOTALS FOR SEPTEMBER 30, 2015)

EXHIBIT I-4

	<u>2016</u>	<u>(2015)</u>
Cash flow from operating activities:		
Cash received from customers	\$ 2,274,801	\$ 4,390,635
Cash payments to suppliers for goods and services	(870,475)	(941,611)
Cash payments to employees for services	(380,006)	(333,338)
Net cash provided by operating activities	<u>1,024,320</u>	<u>3,115,685</u>
Cash flows from noncapital financing activities:		
Net transfers to funds	<u>(555,518)</u>	<u>(661,375)</u>
Net Cash flows from non-capital financing activities	<u>(555,518)</u>	<u>(661,375)</u>
Cash Flows from Capital and Related Financing Activities:		
Principal Payment on bonds	(251,181)	359,603
Interest and Fiscal Charges Paid	(4,892)	(8,979)
Purchase of Fixed Assets/Bond Costs	(434,667)	(2,947,375)
Other adjustments	89,593	140,996
Net Cash Used for Capital and Related Financing Activities	<u>(601,148)</u>	<u>(2,455,755)</u>
Cash Flows from Investing Activities- Interest Income	<u>7</u>	<u>143</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 (132,338)	 (1,301)
 Cash and Cash Equivalents at Beginning of Year	 <u>446,272</u>	 <u>447,573</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 313,934	\$ 446,272
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 816,543	\$ 852,052
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	208,921	204,442
Amortization	-	-
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable (Net)	(18,779)	(118,280)
(Increase) Decrease in Due from Other Funds	-	2,348,796
(Increase) Decrease in Due from Other Governments	-	-
(Increase) Decrease in Prepaid Items	-	-
(Increase) Decrease in Inventory	12,231	(13,071)
Increase (Decrease) in Accounts Payable	(11,834)	(186,708)
Increase (Decrease) in Accrued Liabilities	9,880	10,434
Increase (Decrease) in Due to Other Funds	0	1,405
Increase (Decrease) in Capital Leases Payable	197	6,276
Increase (Decrease) in Compensated Absences	1,257	2,151
Increase (Decrease) in Customer Deposits	5,904	8,187
Net Cash Provided by Operating Activities	<u>\$ 1,024,320</u>	<u>\$ 3,115,685</u>

INTERNAL CONTROL AND COMPLIANCE SECTION

City of Taft, Texas

RAUL HERNANDEZ & COMPANY, P.C.
Certified Public Accountants
5402 Holly Rd, Suite 102
Corpus Christi, Texas 78411
Office (361) 980-0428 Fax (361) 980-1002

**Independent Auditors' Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards**

City Council
City of Taft, Texas
P.O. Box 416
Taft, Texas 78390

Members of the City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Taft, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise City of Taft, Texas' basic financial statements, and have issued our report thereon dated September 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Taft, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Taft, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Taft, Texas' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Item 2016-1, 2016-2, 2016-3, and 2016-4 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Items 2016-1, 2016-2, 2016-3, and 2016-4 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Taft, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Taft, Texas' Response to Findings

City of Taft, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Taft, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Raul Hernandez & Company, P.C.

Corpus Christi, Texas
September 11, 2017

**CITY OF TAFT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Finding No. 2015-1.

Criteria: The City of Taft is required to maintain accurate and timely sub-ledgers to the financial statements during the fiscal year, including the cash reconciliation, accounts receivable, property tax receivable, municipal court reconciliation for deferred revenue, accurate sales tax reconciliation, accurate franchise tax reconciliation, accounts payable reconciliation, fixed assets, bond schedules etc.

Condition: The City of Taft did not maintain accurate sub-ledgers to the financial statements during the fiscal year.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with daily accounting needs.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: For accountability compliance and internal control purposes, the City of Taft should ensure there are sufficient staff members that can assist with the daily accounting needs of the City.

Management Response: The City of Taft has hired a fee accountant to help with preparation of General Ledgers and Bank Reconciliations and cross training is ongoing.

Finding has been reported during the current fiscal year ending September 30, 2016.

Finding No. 2015-2.

Criteria: The City's accounting system must make it possible both: (a) to present fairly and fully disclose the funds and activities of the City in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Condition: The City did not prepare accurate schedules of Due to & Due from, a schedule of transfers, accurate schedules of debt, and accurate capital lease schedule.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with the year end closing of the City's books, including supporting schedules and the general ledger.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: The Finance department should be properly informed and supervised regarding the understanding of year end closing of the City's books. The City must develop a year end closing plan and ensure that proper internal controls over financial reporting and compliance are in place.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end.

Finding has been reported during the current fiscal year ending September 30, 2016.

**CITY OF TAFT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Finding No. 2015-3.

Criteria: Management is responsible for understanding proper accounting rules in recording all financial transactions as well as compliance with the requirements of law, regulations, contracts, and grants applicable to the City's federal programs. Therefore, this process requires management to record transactions accurately in order to develop relevant and reliable financial statements. Furthermore, an official and thorough review of all postings of transactions and account balances should be performed by key management personnel.

Condition: The City recorded numerous posting errors during the fiscal year and especially during the year-end closing. We performed an extended analysis of many accounts and transactions and we determined that the errors resulted from the lack of proper oversight by a authorized personnel. The following corrections were necessary:

- An adjustment was made to the General Fund to reclassify a transfer made from the Emergency Services Fund.
- An adjustment was made to the Water Fund to correctly reflect Inventory at fiscal year end.
- An adjustment was made to record Municipal Court Deferred Revenue.
- An adjustment was made to remove fiscal year 2014 franchise tax revenue in the General Fund.
- An adjustment was made to accrue fiscal year 2015 franchise tax revenue in the General fund.
- An adjustment was made in the Utility Fund to record compensation payables for fiscal year end.
- Accrued Wages payable was not posted in the original trial balance received from the City. Furthermore, an additional adjustment was made to remove the prior year wages accrual.
- An adjustment was made to remove fiscal year Sales Tax Accrual for August and September 2014.
- An adjustment was made to remove fiscal year 2014 expenditures and correctly record against accounts payable in the Wastewater Fund.
- An adjustment was made to accrue August and September 2015 Sales Tax Revenue in the General Fund and the Economic Development Corporation Fund.
- An adjustment was made to the General Fund to remove duplicate postings of Sales Tax Allocations.
- An adjustment was made to record Property Tax Accrual for fiscal year end 2015 in the General Fund, and Debt Service Funds.
- An adjustment was made in the Police Department fund to properly classify a transfer in from the Police A/C Donation Fund.
- An adjustment was made in the Utility Funds to properly classify capital lease payments.

**CITY OF TAFT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Finding No. 2015-3. (continued)

- An adjustment was made in the Wastewater Fund to correctly record reimbursement for Tractor purchase which was miscoded as an expenditure.
- An adjustment was made in the General Fund to correctly record a transfer that was not posted to the general ledger.
- An adjustment was made in the General Fund and Wastewater Fund to correctly record Interest and a Wire Transfer to close out the Texas Water Development Board Escrow account.
- An adjustment was made to in the Wastewater Fund to capitalize fixed assets for 2015.
- An adjustment was made to record year end reclassifications of Debt Principal Payments from the Debt Service Funds to the Wastewater Fund and adjust Long Term Debt Payable.
- An adjustment was made in the Debt Service Fund to remove duplicated postings of revenue.
- An prior period adjustment was made in the Utility Fund to record Loan payable liability for Allied Waste.
- An adjustment was made in the Utility Fund to record a Loan payable liability for San Patricio Municipal Water District. Management estimated amount payable to San Patricio Municipal Water District which appears reasonable.
- An adjustment was made in the Utility Fund to record a prior period adjustment and current year activity to correctly reduce Loan payable liabilities.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with the year end closing of the City's books, including supporting schedules and the general ledger.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: The Finance department should be properly informed and supervised regarding the understanding of year end closing of the City's books. The City must develop a year end closing plan and ensure that proper internal controls over financial reporting and compliance are in place. The City should consider hiring an CPA with governmental knowledge to provide technical assistance and oversight of all accounting functions.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end.

Finding has been reported during the current fiscal year ending September 30, 2016.

**CITY OF TAFT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Finding No. 2015-4.

Criteria: The City of Taft should maintain a general fund balance of approximately three months of annual expenditures. This should also be a goal for the Utility Fund as well.

Condition: The City of Taft over-expended funds and resulted in a deficit general fund balance and in the utility fund unrestricted net assets.

Cause: The overspending of funds and lack of monitoring the budget process resulted in a deficit general fund balance.

Effect: The City of Taft deficits should be avoided in order to ensure proper services are maintained. The City should have approximately a three month of annual expenditures in the general fund as well as three months of annual expenses in the utility fund in the unrestricted net assets.

Recommendation: For accountability and internal control purposes, the City of Taft should establish strong budget and purchasing controls to re-establish its general fund as well as other city funds to three months of annual operational expenditures/expenses.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end.

Finding has been reported during the current fiscal year ending September 30, 2016.

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

1. Summary of the Auditor's Results:

The report issued on the financial statements of City of Taft, Texas, was an unqualified opinion.

The audit did disclose compliance issues which are material to the basic financial statements; a qualified opinion was issued on the compliance and internal controls.

II. Findings relating to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards.

Finding No. 2016-1.

Criteria: The City of Taft is required to maintain accurate and timely sub-ledgers to the financial statements during the fiscal year, including the cash reconciliation, accounts receivable, tax receivable, accounts payable, fixed assets, bond schedules etc.

Finding is a repeat of 2015.

Condition: The City of Taft did not maintain accurate sub-ledgers to the financial statements during the fiscal year.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with daily accounting needs.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: For accountability compliance and internal control purposes, the City of Taft should ensure there are sufficient staff members that can assist with the daily accounting needs of the City.

Management Response: The City of Taft has hired fee accountant, Connie Cardamone to help with preparation of General Ledgers and Bank Reconciliations and cross training is ongoing.

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Finding No. 2016-2.

Criteria: The City's accounting system must make it possible both: (a) to present fairly and fully disclose the funds and activities of the City in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions. Finding is a repeat of 2015.

Condition: The City did not prepare accurate schedules of Due to & Due from, a schedule of transfers, accurate schedules of debt, and accurate capital lease schedule.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with the year end closing of the City's books, including supporting schedules and the general ledger.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: The Finance department should be properly informed and supervised regarding the understanding of year end closing of the City's books. The City must develop a year end closing plan and ensure that proper internal controls over financial reporting and compliance are in place.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end and cross training is ongoing.

Finding No. 2016-3.

Criteria: Management is responsible for understanding proper accounting rules in recording all financial transactions as well as compliance with the requirements of law, regulations, contracts, and grants applicable to the City's federal programs. Therefore, this process requires management to record transactions accurately in order to develop relevant and reliable financial statements. Furthermore, an official and thorough review of all postings of transactions and account balances should be performed by key management personnel.

Condition: The City recorded numerous posting errors during the fiscal year and especially during the year-end closing. We performed an extended analysis of many accounts and transactions and we determined that the errors resulted from the lack of proper oversight by a authorized personnel. The following corrections were necessary:

- An adjustment was made to the Water Fund to correctly reflect Inventory at fiscal year end.
- An adjustment was made to record Municipal Court Deferred Revenue.
- An adjustment was made to record Property Tax Accrual for fiscal year end 2015 in the General Fund, and Debt Service Funds.
- An adjustment was made to the Utility Fund and Street Fund to adjust Unbilled accounts receivable at fiscal year end 2016.

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Finding No. 2016-3. (continued)

- An adjustment of was made to the Utility Fund and Street Fund to record bad debt expense for fiscal year end 2016.
- An adjustment was made in the General Fund to reverse fiscal year 2015 sales tax accrual and record fiscal year 2016 sales tax accrual.
- An adjustment was made to revenue and expense accounts for 4-A and 4-B sales tax which was also reported in the Taft Quality Improvement Corporation Fund and the Street Fund.
- An adjustment was made to accrue fiscal year 2016 sales tax for the Taft Quality Improvement Corporation Fund and the Street Fund and record appropriate Due To's.
- An adjustment was made to record and reverse fiscal year 2015 sales tax accruals.
- An adjustment was made to clear voided checks from prior fiscal years in the EDC Fund.
- An adjustment was made in the general fund to remove Street fund revenue.
- An adjustment was made to accrue fiscal year 2016 sales tax and setup due from general fund for pending tax allocation in the Street fund.
- An adjustment was made in the general fund to adjust street revenue account to reflect fiscal year transfers made to the street fund and cash was adjusted accordingly.
- An adjustment was made to reclassify debt principal and interest postings for fiscal year 2016.
- An adjustment was made to reflect year end adjustments to reclassify debt to the Utility Fund.
- An adjustment was made to correctly record interest expense and agent fees for fiscal year 2016 in the Utility Fund.
- Accrued Wages payable was not posted in the original trial balance received from the City. Furthermore, an additional adjustment was made to remove the prior year wages accrual.
- An adjustment was made to remove and correct adjustment made for 2012-2013 attorney fees adjustment in the general fund.
- An adjustment was made in the TQIC Fund recognize full value of Asphalt Zipper and setup loan payable to Welch State Bank.
- An adjustment was made in the TQIC fund to capitalize asphalt zipper and record depreciation expense for 2016.
- An adjustment was made in the Utility fund to capitalize completed Water Tower Tank improvements and record depreciation expense for fiscal year 2016.

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Finding No. 2016-3. (continued)

- An adjustment was made in the Utility Fund to accrue interest for 2016 and remove accrual from 2015.
- An adjustment was made in the General Fund to bring pooled cash balances to actual for 2016.
- An adjustment was made in the Street Fund and the Debt Service Fund to setup a due to/due from for an online transfer correction.
- An adjustment was made to the General Fund to accrue franchise tax revenue for 2016 and remove accrual from 2015.
- An adjustment was made in the Utility Fund to adjust loan payables for fiscal year 2016 payments.
- An adjustment was made in the TDA Fund to record accounts receivable and grant revenue. An additional adjustment was made to capitalize Water Tower Project expense.
- An adjustment was made to capitalize equipment in the Utility Fund.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with the year end closing of the City's books, including supporting schedules and the general ledger.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: The Finance department should be properly informed and supervised regarding the understanding of year end closing of the City's books. The City must develop a year end closing plan and ensure that proper internal controls over financial reporting and compliance are in place. The City should consider hiring an CPA with governmental knowledge to provide technical assistance and oversight of all accounting functions.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end and cross training is ongoing.

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Finding No. 2016-4.

Criteria: The City of Taft should maintain a general fund balance of approximately three months of annual expenditures. This should also be a goal for the Utility Fund as well. Finding is a repeat of 2015.

Condition: The City of Taft over-expended funds and resulted in a deficit general fund balance and in the utility fund unrestricted net assets.

Cause: The overspending of funds and lack of monitoring the budget process resulted in a deficit general fund balance.

Effect: The City of Taft deficits should be avoided in order to ensure proper services are maintained. The City should have approximately a three month of annual expenditures in the general fund as well as three months of annual expenses in the utility fund in the unrestricted net assets.

Recommendation: For accountability and internal control purposes, the City of Taft should establish strong budget and purchasing controls to re-establish its general fund as well as other city funds to three months of annual operational expenditures/expenses.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end and cross training is ongoing.

**CITY OF TAFT, TEXAS
CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Management will undertake the proper steps to maintain accurate financial records, overall internal control and timely financial reporting.

The City Manager is the contact person and will oversee corrective actions.

